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ABSTRACT

This publication is a comprehensive record of testimony and exhibits presented to the Subcommittee on Elementary, Secondary, and Vocational Education of the U.S. House of Representatives during hearings held on September 28 and 29, 1977 on the School Finance Act of 1977 (H.R. 1138). The purpose of H.R. 1138 is to provide grants to assist local education agencies in conducting high quality elementary and secondary school programs and to provide additional grants to assist states in equalizing the distribution of educational resources among local education agencies. Testimony and exhibits are presented chronologically and indexed alphabetically by witnesses' names. The complete text of H.R. 1138 and a summary description of its purposes are also included. The appendix includes several papers and research reports on recent trends in school finance reform. (JG)

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PART 13: SCHOOL FINANCE ACT OF 1977 AND EQUALIZATION EFFORTS

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON ELEMENTARY, SECONDARY,
AND VOCATIONAL EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

H.R. 1138

TO ASSIST THE STATES AND LOCAL EDUCATIONAL AGENCIES
IN PROVIDING EDUCATIONAL PROGRAMS OF HIGH QUALITY
IN ELEMENTARY AND SECONDARY SCHOOLS AND TO ASSIST
THE STATES IN EQUALIZING EDUCATIONAL OPPORTUNITY
AND FOR OTHER PURPOSES

HEARINGS HELD IN WASHINGTON, D.C.
SEPTEMBER 28 AND 29, 1977

Printed for the use of the Committee on Education and Labor
CARL D. PERKINS, *Chairman*



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PART 13: SCHOOL FINANCE ACT OF 1977 AND EQUALIZATION EFFORTS

WEDNESDAY, SEPTEMBER 28, 1977

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ELEMENTARY, SECONDARY,
AND VOCATIONAL EDUCATION,
COMMITTEE ON EDUCATION AND LABOR,
Washington, D.C.

The subcommittee met, pursuant to notice at 8:30 a.m., in room 2175, Rayburn House Office Building, the Hon. Ronald Mottl, presiding.

Members present: Representatives Perkins, Mottl, and Quie.

Staff present: John F. Jennings, majority counsel; Christopher Cross, minority senior education consultant; and Nancy L. Kober, staff assistant.

[Text of H.R. 1138 follows:]

(1)

95TH CONGRESS
1ST SESSION

H. R. 1138

IN THE HOUSE OF REPRESENTATIVES

JANUARY 4, 1977

Mr. PERKINS introduced the following bill; which was referred to the Committee on Education and Labor

A BILL

To assist the States and local educational agencies in providing educational programs of high quality in elementary and secondary schools and to assist the States in equalizing educational opportunity, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That this Act may be cited as the "School Finance Act of
- 4 1977".

5 TITLE I—BASIC GRANTS

6 FINDING AND PURPOSE

- 7 SEC. 101. (a) The Congress finds that while the pri-
- 8 mary responsibility for providing elementary and secondary
- 9 education rests with the States the Federal Government has

1 an obligation to assist the States in making available to all
2 children an education of high quality.

3 (b) It is therefore the purpose of this title to provide
4 financial assistance to the States and to local educational
5 agencies to assure that their resources when supplemented
6 by this Federal assistance will be adequate to provide to all
7 children an elementary and secondary education of high
8 quality.

9 AMOUNT OF BASIC GRANTS

10 SEC. 102. (a) From the sums appropriated for the fiscal
11 year ending September 30, 1978, and for each of the suc-
12 ceeding fiscal years ending prior to October 1, 1982, the
13 Commissioner shall reserve an amount not to exceed 2 per
14 centum for basic grants to Puerto Rico, Guam, American
15 Samoa, the Virgin Islands, and the Trust Territory of the
16 Pacific Islands according to their respective needs for such
17 assistance under this section, and the Commissioner shall set
18 the maximum amounts which their local educational agencies
19 shall be eligible to receive.

20 (b) (1) From the remainder of the sums appropriated
21 for each such fiscal year, the Commissioner shall pay to each
22 local educational agency within a State the basic grant to
23 which it is entitled, as determined under paragraph (2).

24 (2) The amount of the basic grant to which a local
25 educational agency is entitled is equal to \$100 for every child

1 in average daily membership in elementary and secondary
 2 schools in the school district of such agency, reduced by the
 3 percentage that its non-Federal per pupil expenditure exceeds
 4 115 per centum of the State average per pupil expenditure.

5 APPLICATIONS FOR BASIC GRANTS

6 SEC. 103. (a) Any local educational agency which
 7 desires to receive for any fiscal year the basic grant to which
 8 it is entitled under section 102 must submit to the appro-
 9 priate State educational agency an application which con-
 10 tains—

11 (1) an assessment of the educational needs of the
 12 children enrolled in the schools of such agency and its
 13 plans for meeting those needs with funds provided under
 14 this title;

15 (2) an evaluation of the effectiveness, including
 16 objective measurements of educational achievement of
 17 programs funded in the preceding fiscal year from funds
 18 provided under this title;

19 (3) such other information as the State educational
 20 agency may reasonably need to enable it to perform its
 21 duties under this title; and

22 (4) assurances that—

23 (A) (i) to the extent consistent with the num-
 24 ber of children in the school district of such agency
 25 who are enrolled in private nonprofit elementary and

1 secondary schools, such agency, after consultation
2 with the appropriate private school officials, will provide for the benefit of such children in such schools
3 secular, neutral, or nonideological services, materials, and equipment including such facilities as necessary for their provision consistent with subparagraph
4 (B) of this section, or, if such are not feasibly or
5 necessary in one or more of such private schools as
6 determined by the local educational agency after
7 consultation with the appropriate private school officials, such other arrangements, as dual enrollments,
8 which will assure adequate participation of such children, and (ii) from the funds received by such
9 agency under the provisions of section 102, such
10 agency will expend, for the purposes of fulfilling the
11 requirements of this paragraph, an amount which
12 bears the same ratio to the total amount received
13 under section 102 as the number of children enrolled
14 in private nonprofit schools who are counted for purposes of section 102 (b) (2) bears to the total number of such children enrolled in elementary and secondary schools in the school district of such agency;
15
16 (B) (i) the control of funds provided under this
17 title and title to property acquired therewith shall
18 be in a public agency for the uses and purposes pro-

1 vided in this title, and that a public agency will ad-
2 minister such funds and property; (ii) the provision
3 of services pursuant to subparagraph (A) shall be
4 provided by employees of such public agency or
5 through contract by such public agency with a per-
6 son, an association, agency, or corporation who or
7 which in the provision of such services, is independ-
8 ent of such private school and any religious organiza-
9 tion, and such employment or contract shall be
10 under the control and supervision of such public
11 agency; and (iii) the funds provided under this
12 title shall not be commingled with State or local
13 funds; and

14 (5) assurances that—

15 (A) Federal funds made available under this
16 title will be so used as to supplement and, to the ex-
17 tent possible, increase the level of funds that
18 would, in the absence of such Federal funds, be made
19 available from non-Federal sources for the education
20 of pupils participating in programs assisted under
21 this title;

22 (B) it will keep such records and afford such
23 access thereto as the State educational agency may
24 find necessary to assure the correctness and verifica-
25 tion of such applications; and

1 (C) no more than 10 per centum of the funds
2 received under this title in any fiscal year will be
3 used for capital outlay and debt service.

4 (b) The State educational agency shall not finally dis-
5 approve in whole or in part any application for funds under
6 this title without first affording the local educational agency
7 submitting the application reasonable notice and opportunity
8 for a hearing.

9 STATE PARTICIPATION IN BASIC GRANT PROGRAM

10 SEC. 104. (a) Any State which desires to participate
11 under this title shall submit through its State educational
12 agency to the Commissioner an application, in such detail
13 as the Commissioner deems necessary, which provides satis-
14 factory assurances that—

15 (1) except as provided in section 105(b), pay-
16 ments under this title will be used only for programs
17 which have been approved by the State educational
18 agency pursuant to section 103 and which meet the
19 applicable requirements of that section, and that such
20 agency will in all other respects comply with the provi-
21 sions of this title, including the enforcement of any ob-
22 ligations imposed upon a local educational agency under
23 section 103; and

24 (2) the State educational agency will make to the
25 Commissioner (A) periodic reports (including the re-

1 sults of objective measurements required by section 103)
2 evaluating the effectiveness of programs assisted under
3 this title in improving educational attainment, and (B)
4 such other reports as may be reasonably necessary to
5 enable the Commissioner to perform his duties under this
6 title (including such reports as he may require to deter-
7 mine the amounts which the local educational agencies
8 of that State are eligible to receive for any fiscal year).

9 (b) The Commissioner shall approve an application
10 which meets the requirements specified in this section, and
11 he shall not finally disapprove an application except after
12 reasonable notice and opportunity for a hearing to the State
13 educational agency.

14 PAYMENTS TO STATES

15 SEC. 105. (a) (1) The Commissioner shall, subject to
16 the provisions of section 302, from time to time pay to each
17 State the amount which the local educational agencies of that
18 State are entitled to receive under this title.

19 (2) From the funds paid to it pursuant to paragraph
20 (1) each State educational agency shall distribute to each
21 local educational agency of the State which has submitted an
22 application approved pursuant to section 103 the amount for
23 which such application has been approved, except that this
24 amount shall not exceed the basic grant to which such agency
25 is entitled pursuant to section 102.

1 (b) The Commissioner shall pay to each State an
2 amount equal to the amount expended by it for the proper
3 and efficient performance of its duties under this title (includ-
4 ing technical assistance for the measurements and evaluations
5 required by section 103), except that the total of such pay-
6 ments in any fiscal year shall not exceed—

7 (1) 1 per centum of the total grants made to local
8 educational agencies of such State within that fiscal
9 year; or

10 (2) \$150,000, whichever is the greater, or \$25,-
11 000 in the case of Puerto Rico, Guam, American Samoa,
12 the Virgin Islands, or the Trust Territory of the Pacific
13 Islands.

14 REDUCTIONS WHERE NECESSITATED BY INSUFFICIENT

15 APPROPRIATIONS

16 SEC. 106. (a) If for any fiscal year the amount ap-
17 propriated is insufficient to provide to local educational agen-
18 cies the full amount of their entitlements under section 102,
19 or to provide to State educational agencies the amounts for
20 expenses determined under section 105 (b), the amount of
21 each such agency's entitlement shall be reduced by a per-
22 centage (which shall be uniform for each such agency)
23 which will result in allocations which do not exceed the ap-
24 propriations available therefor.

25 (b) In case additional funds become available during

1 any fiscal year for making payments under this title amounts
2 reduced pursuant to subsection (a) shall be increased on the
3 same basis that they were reduced.

4 TITLE II—EQUALIZATION GRANTS

5 FINDING AND PURPOSE

6 SEC. 201. (a) The Congress finds that the Federal
7 Government has an obligation to assist the States in equal-
8 izing the resources available within the States so that an
9 opportunity to obtain an education appropriate to individual
10 need will be available to all children regardless of their
11 place of residence within the States.

12 (b) It is therefore the purpose of this title to provide
13 financial assistance to the States to assist them in equalizing
14 educational opportunity.

15 CREATION OF TRUST FUND

16 SEC. 202. (a) (1) There is created in the books of the
17 Treasury of the United States a trust fund to be known as
18 the Education Trust Fund (hereinafter referred to as the
19 "trust fund"), which shall remain available without fiscal
20 year limitation and shall consist of the amounts appropriated
21 to it as provided in subsections (b) and (c).

22 (2) The Commissioner shall be the trustee of the trust
23 fund and shall report to the Congress not later than March 1
24 of each year on the operation and status of the trust fund
25 during the preceding fiscal year.

1 (b) There are authorized to be appropriated and de-
 2 posited in the trust fund, for the fiscal year ending September
 3 30, 1978, and for each of the succeeding fiscal years, such
 4 sums as the States may be entitled to in equalization grants
 5 for each fiscal year pursuant to section 203.

6 (c) There is also authorized to be appropriated and de-
 7 posited in the trust fund for each fiscal year an amount
 8 equal to not more than 2 per centum of the amount appro-
 9 priated for such year for payments to States under subsection
 10 (b). The Commissioner shall allot the amount appropriated
 11 pursuant to this subsection among Puerto Rico, Guam,
 12 American Samoa, the Virgin Islands, and the Trust Ter-
 13 ritory of the Pacific Islands according to their respective
 14 needs for such assistance under this title.

15 AMOUNT OF EQUALIZATION GRANTS

16 SEC. 203. (a) Upon approval of a State's application
 17 for an equalization grant under section 204, the Commis-
 18 sioner shall pay out of the trust fund to each State the
 19 amount to which it is entitled under this section.

20 (b) The amount of an equalization grant to which a
 21 State is entitled shall be an amount equal to the product
 22 obtained by multiplying—

23 (1) the number of children in average daily mem-
 24 bership in the elementary and secondary schools in the
 25 State by

1 (2) (A) \$200 for the first fiscal year in which the
2 State participates in the program authorized by this
3 title;

4 (B) \$300 for the second such fiscal year;

5 (C) \$400 for the third such fiscal year;

6 (D) \$500 for the fourth such fiscal year; and

7 (E) \$600 for each succeeding fiscal year.

8 APPLICATIONS FOR EQUALIZATION GRANTS

9 SEC. 204. (a) Any State desiring to receive its entitle-
10 ment for equalization grants under this title, in lieu of basic
11 grants under title I of this Act, shall submit to the Com-
12 missioner a State plan to achieve an equalization of resources
13 for elementary and secondary education within such State
14 within five fiscal years of the date of its application.

15 (b) The equalization plan referred to in subsection (a)
16 of this section must guarantee that—

17 (1) the quality of education provided to a child
18 within that State cannot be the result of the wealth of
19 the school district in which he attends school but rather
20 must result from the wealth of the State taken as a
21 whole;

22 (2) by the end of the fifth fiscal year of such State's
23 participation in this program the per pupil expenditure
24 (exclusive of Federal funds, except for funds provided
25 under this program) of any local educational agency

1 within such State (not including additional expenditures
2 commensurate with need and cost as required by para-
3 graphs (3) and (4) of this subsection) shall not vary
4 by more than 10 per centum from such expenditure in
5 any other local educational agency within such State;

6 (3) amounts commensurate with their needs are
7 expended on children with greater educational needs, in-
8 cluding educationally disadvantaged, handicapped, and
9 vocational education students;

10 (4) amounts commensurate with the costs are ex-
11 pended in school districts with greater costs, including
12 those attributable to sparsity of population;

13 (5). (A) (i) to the extent consistent with number
14 of children in the school districts of such State who are
15 enrolled in private nonprofit elementary and secondary
16 schools, such State, after consultation with the appro-
17 priate private school officials, will provide for the benefit
18 of such children in such schools secular, neutral, or non-
19 ideological services, materials, and equipment including
20 such facilities as necessary for their provision, consistent
21 with subparagraph (B) of this section, or, if such are not
22 feasible or necessary in one or more of such private
23 schools as determined by the State after consultation with
24 the appropriate private school officials, such other ar-
25 rangements, as dual enrollments, which will assure ad-

1 equate participation of such children, and (ii) from the
2 funds received by such State under the provisions of
3 section 203, such State will expend for the purposes of
4 fulfilling the requirements of this paragraph, an amount
5 which bears the same ratio to the total amount received
6 under section 203 as the number of children enrolled in
7 private nonprofit schools who are counted for purposes of
8 section 203 (b) bears to the total number of such children
9 enrolled in elementary and secondary schools in the
10 school districts of such State;

11 (B) (i) the control of funds provided under this title
12 and title to property acquired therewith shall be in a
13 public agency for the uses and purposes provided in this
14 section, and that a public agency will administer such
15 funds and property; (ii) the provision of services pur-
16 suant to subparagraph (A) shall be provided by em-
17 ployees of a public agency or through contract by a
18 public agency with a person, an association, agency, or
19 corporation who or which in the provision of such serv-
20 ices, is independent of such private school and any reli-
21 gious organization, and such employment or contract
22 shall be under the control and supervision of a public
23 agency; and (iii) the funds provided under this title
24 shall not be commingled with State or local funds; and

25 (8) the State will make to the Commissioner—

1 (A) periodic reports evaluating the effective-
 2 ness of programs assisted under this title in im-
 3 proving educational attainment, and

4 (B) such other reports as may be reasonably
 5 necessary to enable the Commissioner to perform
 6 his duties under this title.

7 (c) The Commissioner shall approve a State plan which
 8 meets the requirements specified in this section, and he shall
 9 not finally disapprove a State plan except after reasonable
 10 notice and opportunity for a hearing to the State.

11 PAYMENTS TO STATES

12 SEC. 205. (a) The Commissioner shall, subject to the
 13 provisions of section 302, from time to time pay to each State
 14 the amount which it is entitled to receive under this title,

15 (b) The Commissioner shall pay to each State an
 16 amount equal to the amount expended by it for the proper
 17 and efficient performance of its duties under this title, except
 18 that the total of such payments in any fiscal year shall not
 19 exceed—

20 (1) 1 per centum of the equalization grant made to
 21 such State within that fiscal year; or

22 (2) \$150,000, whichever is the greater, or \$25,-
 23 000 in the case of Puerto Rico, Guam, American Samoa,
 24 the Virgin Islands, or the Trust Territory of the Pacific
 25 Islands.

1 Ratable Reductions

2 SEC. 206. If the sums appropriated for any fiscal year
3 are not sufficient to pay in full the amounts to which States
4 are entitled under this title, such amounts shall be ratably
5 reduced. If additional sums become available for any fiscal
6 year to which the preceding sentence has been applied, such
7 amounts shall be increased on the same basis as they were
8 reduced.

9 TITLE III—GENERAL PROVISIONS

10 CONDITION ON AUTHORIZATION

11 SEC. 301. Notwithstanding any other provisions of this
12 Act, no funds are authorized to be appropriated to carry out
13 the provisions of this Act for any fiscal year when funds
14 appropriated for the program authorized under title I of
15 the Elementary and Secondary Education Act do not equal
16 or exceed the sum of \$3,000,000,000.

17 WITHHOLDINGS

18 SEC. 302. (a) Whenever the Commissioner, after rea-
19 sonable notice and opportunity for a hearing to any State,
20 finds that there has been a failure to comply substantially
21 with any requirements set forth in section 103, 104, or 204,
22 the Commissioner shall notify the State that further pay-
23 ments will not be made to the State under this Act (or,
24 in his discretion, that the State shall not make further pay-
25 ments under this Act to specified local educational agencies

1 affected by the failure) until he is satisfied that there is no
 2 longer any such failure to comply. Until he is so satisfied, no
 3 further payments shall be made to the State under this Act,
 4 or payments by the State under this Act shall be limited
 5 to local educational agencies not affected by the failure, as
 6 the case may be.

7 (b) (1) If a State, or local educational agency within
 8 a State, is prohibited by law from providing for the par-
 9 ticipation of children enrolled in private nonprofit elementary
 10 and secondary schools as required in this Act, the Com-
 11 missioner may waive such requirement with respect to local
 12 educational agencies in such State and, upon approval of
 13 an application from a State educational agency under title I
 14 or of the State plan adopted pursuant to title II, shall ar-
 15 range for the provision of services to such children enrolled
 16 in any nonprofit private elementary or secondary school
 17 located within the school district of such agency or the school
 18 districts of agencies within the State. The services to be
 19 provided through arrangements made by the Commissioner
 20 under this paragraph shall be comparable to the services to
 21 be provided by such local educational agency or by the
 22 State. The Commissioner shall pay the cost of such arrange-
 23 ments from such local educational agency's entitlement or
 24 from the State's allotment.

25 (2) In determining the amount to be paid pursuant to

1 paragraph (1), the Commissioner shall take into account the
 2 number of children in such schools who were counted for
 3 purposes of section 102 or section 203.

4 (3) If the Commissioner determines that a local edu-
 5 cational agency or a State has substantially failed to pro-
 6 vide for the participation on an equitable basis of children
 7 enrolled in private nonprofit elementary and secondary
 8 schools as required by this Act, he shall arrange for the pro-
 9 vision of services to children enrolled in the nonprofit private
 10 elementary or secondary school or schools located within the
 11 school district of such local educational agency or State,
 12 which services shall, to the maximum extent feasible, be com-
 13 parable with the services which would have been provided
 14 such children had the local educational agency or State ful-
 15 filled the requirements of this Act. The Commissioner shall
 16 pay the cost of such services from the grant to such local
 17 educational agency or State and shall have the authority for
 18 this purpose of recovering from such agency any funds paid
 19 to it under such grant.

20 JUDICIAL REVIEW

21 SEC. 303. (a) If any State is dissatisfied with the Com-
 22 missioner's final action with respect to the approval of its
 23 application submitted under section 104 or its State plan sub-
 24 mitted under section 204 or with his final action under section
 25 302, such State may, within sixty days after notice of such

1 action, file with the United States court of appeals for the
2 circuit in which such State is located a petition for review of
3 that action. A copy of the petition shall be forthwith trans-
4 mitted by the clerk of the court to the Commissioner. The
5 Commissioner thereupon shall file in the court the record
6 of the proceedings on which he based his action, as provided
7 in section 2112 of title 28, United States Code.

8 (b) The findings of fact by the Commissioner, if sup-
9 ported by substantial evidence, shall be conclusive; but the
10 court, for good cause shown, may remand the case to the
11 Commissioner to take further evidence, and the Commis-
12 sioner may thereupon make new or modified findings of fact
13 and may modify his previous action, and shall file in the
14 court the record of the further proceedings. Such new or
15 modified findings of fact shall likewise be conclusive if sup-
16 ported by substantial evidence.

17 (c) Upon the filing of such petition, the court shall
18 have jurisdiction to affirm the action of the Commissioner
19 or to set it aside, in whole or in part. The judgment of the
20 court shall be subject to review by the Supreme Court of
21 the United States upon certiorari or certification as provided
22 in section 1254 of title 28, United States Code.

23 DEFINITIONS

24 SEC. 304. For purposes of this Act—

25 (1) The term "Commissioner" means the Commis-
26 sioner of Education.

1 (2) The term "elementary school" means a day or
2 residential school which provides elementary education, as
3 determined under State law; and the term "secondary
4 school" means a day or residential school which provides
5 secondary education, as determined under State law, except
6 that it does not include any education provided beyond
7 grade 12.

8 (3) The term "equipment" includes machinery, utilities,
9 and built-in equipment and any necessary enclosures or struc-
10 tures to house them, and includes all other items necessary
11 for the provision of education services, such as instructional
12 equipment and necessary furniture, printed, published, and
13 audiovisual instructional materials and other related material.

14 (4) The term "local educational agency" means a pub-
15 lic board of education or other public authority legally con-
16 stituted within a State for either administrative control or
17 direction of, or to perform a service function for, public
18 elementary or secondary schools in a city, county, township,
19 school district, or other political subdivision of a State, or
20 such combination of school districts or counties as are recog-
21 nized in a State as an administrative agency for its public
22 elementary or secondary schools. Such term also includes
23 any other public institution or agency having administrative
24 control and direction of public elementary or secondary
25 schools.

1 (5) The term "nonprofit" as applied to a school means
2 a school owned and operated by one or more nonprofit cor-
3 porations or associations no part of the net earnings of which
4 inures, or may lawfully inure, to the benefit of any private
5 shareholder or individual.

6 (6) The term "State" means the fifty States, the Dis-
7 trict of Columbia, and, except for purposes of sections 102
8 (b) and 203 (b), Puerto Rico, Guam, American Samoa, the
9 Virgin Islands, and the Trust Territory of the Pacific
10 Islands.

11 (7) The term "State educational agency" means the
12 State board of education or other agency or officer primarily
13 responsible for the State supervision of public elementary
14 and secondary schools.

"School Finance Act of 1977"

H.R. 1138 has two purposes: to provide general aid to local school districts to insure programs of high quality, and to assist States in equalizing educational opportunity.

Toward the first purpose, the bill authorizes basic grants to be made to local educational agencies in an amount equal to \$100 for every child in average daily membership in that district, reduced by the percentage that the district's non-Federal per pupil expenditure exceeds 115% of the State average per pupil expenditure. Local educational agencies applying for basic grants must submit to the State educational agency an application which assesses the educational needs of the children in its schools, sets forth a plan for meeting these needs, provides for evaluation of programs funded under the bill, makes provision for services to non-public schoolchildren, and assures that the funds will be used to supplement funds from non-Federal sources.

The bill also authorizes equalization grants to be made to States which have submitted and had approved by the Commissioner of Education a State plan to achieve equalization of resources for elementary and secondary education within the State. The State plan must guarantee that: 1) the State wealth, rather than the wealth of the local district, will be the basis for the quality of education provided each child in the State; 2) after five years' participation in the program, the per pupil expenditure of any local district will not vary by more than 10% from that of any other district in the State; 3) greater amounts will be expended on children with greater educational needs and on districts with greater educational costs, and 4) provision will be made for participation of non-public schoolchildren.

A State's equalization grant will be in the amount of \$200 for every pupil in average daily membership for the first fiscal year the State participates, \$300 per pupil for the second year, \$400 for the third, \$500 for the fourth, and \$600 for the fifth and succeeding fiscal years.

No funds are authorized to carry out the provisions of the bill until the appropriation for Title I of the Elementary and Secondary Education Act equals or exceeds \$3 billion. For both the basic grant and equalization grant programs, up to 2% of funds appropriated are reserved for the outlying areas, and up to 1% of a State's total grant is reserved for State administration.

Mr. MOTT. The subcommittee will come to order.

If we could have Dr. Alexander, Mr. Odden, Mr. Hodge and Mr. Long at the front table here.

The Subcommittee on Elementary, Secondary, and Vocational Education is conducting hearings today and tomorrow on H.R. 1138, a bill to provide general aid to school districts and to assist States in equalization of educational resources.

These hearings will also address the general subject of equalization of educational resources.

The situation of unequal resources, I believe, lies at the root of most of the problems we face in education today. I feel it important and appropriate that the subcommittee address this problem at the same time we think about ways to amend all of the major elementary and secondary education programs next year.

In the chairman's State of Kentucky, for example, the richest school district spends about three times as much to educate its youngsters as does the poorest school district. We can add Federal categorical program after program on top of basic educational programs, but the simple fact will remain that in Kentucky the rich will have three times as much for their children's basic education as will the poor.

Except for a small program to aid States in developing equalization plans, the Federal Government has not provided funds to remedy this situation.

Following the *Serrano v. Priest* decision a couple of States initiated efforts to revamp their school finance systems on a more equalized basis. To my way of thinking, only the Federal Government possesses the full financial capability to bring about substantial change in this area.

States are already providing 43.6 percent of the total elementary and secondary school funds, which marks a steady increase in the State's share over the past several years. Local districts provide 48.6 percent of these funds, and the Federal Government only 7.8 percent. This Federal share has remained fairly constant during the past decade.

If funds are not forthcoming for a multi-billion dollar program of the type proposed in H.R. 1138, I am strongly convinced that the responsibility rests with the Federal Government to take some action to do away with the vast inequities that still exist in school financing.

For that reason, I am pleased that we have such a distinguished panel of school finance experts here today. I hope that the witnesses today and tomorrow will be able to tell us first what is the status of equalization efforts throughout the country and second, what measures the Federal Government might undertake on a grand scale or on a more modest scale to further the goal of equalization.

Our distinguished panel here this morning is Dr. Kern Alexander, Director, Institute for Educational Finance, University of Florida, Gainesville; Mr. Allan Odden, Director, Education Finance Center, Education Commission of the States; Mr. Michael V. Hodge, Director, School Finance Reform Project, National Urban Coalition; and Mr. David Long, Director, School Finance Reform Project, Lawyers' Committee for Civil Rights Under Law.

We will hear first of all from Dr. Kern Alexander.

Dr. Alexander, may I suggest to all of you, you either can read your statement or summarize it for the record. It is my understanding there will be a Democratic Caucus at 9:00. We might be a little rushed this morning. All of your statements will be submitted in the record in their entirety. Without objection, they will be so admitted.

**STATEMENT OF KERN ALEXANDER, DIRECTOR, INSTITUTE FOR
EDUCATIONAL FINANCE, UNIVERSITY OF FLORIDA,
GAINESVILLE**

[The statement of Dr. Alexander follows:]

FEDERAL GENERAL AID TO EDUCATION:

COMMENTS ON H.R. 1138

by Kern Alexander*

General aid to elementary and secondary education is long overdue in this country. Benefits accruing to the nation from education are of such magnitude as to justify a much greater Federal investment. Recognition of the need for a major Federal subvention is not new. As far back as 1931, the National Advisory Committee on Education, appointed by President Hoover, issued a report entitled "Federal Relations to Education" which justified more Federal involvement in education and maintained that the American people should use the Federal tax system to give financial support to aid education in the states. The report, however, emphasized that such aid should not delegate undue control to the Federal government. According to the Committee, funds should be allocated to aid education as a whole and not as special grants for stimulation purposes.

Only a few years later, under the Roosevelt Administration, a report by the United States Advisory Committee on Education stated that grants should be made available to states for "all

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types of current operating expenses". Over the years many subsequent studies, including the National Educational Finance Project, have continued to recommend general aid for education to supplement State and local financing.¹ Federal expansion of categorical assistance with corresponding increase in control has been a major concern of educators. Much of the disenchantment with the present categorical grant system emanates from an historical distrust of centralization of governmental power, especially in the area of education. Education is possibly the best example of a major governmental enterprise which is still recognizably federalized. Even with the multiplicity of controls attached to categorical grants public education in the United States, compared to other countries, maintains a great diversity of purpose and is a free marketplace for acquiring knowledge and developing human capital. Under State and local control, the American system of education has been successful far in excess of most centralized systems of other countries. As Johns has observed:

More innovative educational programs have been developed in the United States under state and local control of education than are generally found in nations that have nationally controlled systems of public education.²

The present Bill, H.R. 1138, introducing the "School Finance Act of 1977", represents an attempt to correct the inade-

¹Alternative Programs for Financing Education, National Educational Finance Project, Volume 5, Gainesville, Florida, 1971, pp. 193-194.

²Ibid., p. 196.

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quacies of our present educational grant system without drastic and possibly detrimental restructuring. As a policy shift, the Bill suggests that the Federal government may at least implicitly assume that the problems of education are largely related to a deficiency of financing and not altogether the result of inefficiency or ineffectiveness of the educational system itself. Purposes espoused in the Bill indicate a general desire on the part of the Federal government to play a more basic and monetarily important role in education without burdening the educational system with extraneous categorical requirements.

A major change in Federal policy such as this must be considered not only in light of its technical fiscal impact, but also as to its more pervasive implications for Federal-State relations. Rationale which should be used in evaluating a major legislative innovation of this type should include at least the following:

1. Does the program promote development of adequate public school programs in each State?
2. Does the program provide for administrative arrangements conducive to sound Federal-State relationships?
3. Does the program equalize educational opportunity?
4. Is this program consistent with applicable Federal constitutional restraints?

Adequacy of Programs

Whether programs are adequate may depend on many variables which include the educational services offered to the children

appropriate to their educational needs. Adequacy may also be viewed in terms of outputs or what is produced in the schools. This Bill promotes not only an adequate education but a quality one through the measurement of both inputs and outputs. Local education agencies will be required to submit applications to State agencies which include an assessment of educational needs of the children and also an evaluation of the effectiveness of the educational programs, measured in terms of educational achievement. (See: Sec. 103.)

The requirement of an assessment of educational needs is appropriate especially where the result is a plan which may improve the present educational program. Plans descriptive of specified educational services to accommodate particular educational needs of children can, with appropriate implementation, provide for more adequate or even quality education.

Measurement of educational effectiveness, as mandated in the Bill, is a complex requirement. As a social phenomenon, education is not easily evaluated, especially in terms of objective measurement of educational achievement. Effectiveness of an educational program must be measured, not only in terms of immediate increases in achievement, but with regard to consumption and long term economic benefits to the individual and society. The term "effectiveness" suggests the use of input/output analysis to identify alternative mechanisms to produce, a more adequate or quality educational program. To date, effectiveness studies have yielded few reliable results. It may well

be that the Bill could be strengthened by rewording or deemphasizing the "effectiveness" requirement. Few, if any, local education agencies have the capacity to relate funding to achievement. Cost-effectiveness analysis is probably unrealistic with the present state of technology.

Too, a certain danger exists in the suggestion from the Federal government that educational quality is to be evaluated by "objective measurements of educational achievement". This may be suggestive of national sanction of educational testing. It is important to note, though, that countries which rely on achievement testing to measure the quality students productivity have not generally been as educationally advanced, either qualitatively or quantitatively, as the United States which has traditionally had a system of accreditation of services offered, programs, schools, and systems. Herein lies one shortcoming of the Bill. It seems that quality education may be better secured by suggesting a broad range of educational programs and services which should be offered.

Federal-State Relations

The second criterion, a sound Federal-State administrative relationship, revolves essentially around two legal issues: (1) the "delegation doctrine" and (2) the role of the Federal government in education.

Of major concern to educators in recent years has been the tendency of the Federal government to restrict or restrain local educational prerogative. The encroachment does not usually emanate

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from statute but from the regulations of the administrative agency implementing the law. Whether this is true is always subject to individual interpretation of the scope of statutory purpose. Although legally it is well established that "Congress cannot delegate legislative power....,"³ this statement cannot be interpreted in its narrow context. Today, the delegation doctrine is interpreted to be rather broad and apparently requires little more than that Congress identify the problem and tell the agency to "go solve it".⁴ Without definable limits, then, it appears that Congress may almost without limitation delegate rule-making power to subordinate agencies.

Even though such delegation may not be unconstitutional, it could well run counter to desirable public policy, especially where education is concerned. With education, alleged infringements by Federal agencies have become more and more the subject of controversy. Of particular concern in H.R. 1138 is the provision [Sec. 104(a)] which requires that in order to participate a State agency must submit an application "... in such detail as the Commissioner deems necessary...." While the Commissioner under this standard is not entirely free from all guidelines, he nevertheless has full prerogative to define what constitutes satisfactory assurances with regard to "effectiveness of programs assisted under this title". This power narrowly interpreted could

³Field v. Clark, 143 U.S. 649, 12 S.Ct. 495, (1892).

⁴Ernest Gellhorn, Administrative Law and Process, West Publishing Company, St. Paul, 1972, p. 27.

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result in little or no Federal encroachment, but broadly viewed could suggest a role for Federal evaluation not heretofore anticipated. Since this Bill is noncategorical and funds therefrom may be expended on education generally, it is conceivable that broad interpretation could require that prerequisite Federal conditions dominate the use of State and local fiscal resources as well. With "satisfactory assurances" no longer applying to a narrow categorical purpose, more limitation and definition of the Commissioner's prerogative would seem to be appropriate.

Federal-State relationships in education have for years rested on a rather nebulous concept of limited "federal intervention" to redress problems of national interest. Authority is found under the "general welfare clause" for the Federal government to expend tax dollars. The Supreme Court has held that "Congress cannot, under the pretext of executing delegated power, pass laws for the accomplishment of objects not entrusted to the Federal Government."⁵ Although the power of Congress is considered to have substantial flexibility within General Welfare,⁶ the legal boundary in Federal-State relations in education remains unclear. Recently, the Supreme Court, in handing down a decision pertaining to the Commerce Clause, made some observations which may be applicable to General Welfare. The Court said that "there are attributes of sovereignty attaching to every State government that may not be

⁵Linder v. United States, 268 U.S. 5, 45 S.Ct. 446; See also United States v. Butler, 297 U.S. 1, 56 S.Ct. 312 (1936).

⁶Helvering v. Davis, 301 U.S. 619 (1937).

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impaired by Congress, not because Congress may back an affirmative grant of legislative authority to reach the matter, but because the Constitution prohibits it from exercising the authority in that manner."⁷ Nyquist, in a call to reconsider the State-Federal Contract⁸ maintains that the present Federal role in education is beyond that conceived by the framers of the Constitution, that as it now functions, the Federal government exercises excessive control over education. This concern is further manifested in the prohibition against Federal control in the Education Amendments of 1976.

With this basic indecisiveness of the Federal role it is well that Sec. 101(a) of the Bill acknowledges that "... the primary responsibility for providing elementary and secondary education rests with the States..." and that the role of the Federal government is to assist. Such language should serve to ameliorate fears of Federal intermeddling in State education affairs. The philosophy and purpose of the Bill, on the whole, would seem to a great extent restore the appropriate relationship between the State and Federal governments.

Equal Educational Opportunity

The third criterion, equal educational opportunity, has at least two aspects: (1) fiscal equality and (2) educational need equality. Full fiscal equalization or fiscal neutrality is a

⁷National League of Cities v. Usery, 1976.

⁸Ewald B. Nyquist, "It's Time to Reconsider the State-Federal Contract," Compact, Winter, 1977, p. 11.

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goal advanced in the school finance litigation of the past decade maintaining that a child's education should not be a function of the fiscal ability of the school district. Though the weight of authority today does not constitutionally require fiscal neutrality the goal is, nevertheless, a desirable one and the present Bill appropriately incorporates the standard. [Sec. 203(b)(1)].

Fiscal neutrality alone means that the State must guarantee each child equal access to State resources, that the fiscal ability of the local school districts must be fully equalized so that equal tax effort will produce equal tax yield. Expenditures could vary considerably if widely differing levels of effort are found throughout a State.

As the Bill is now written, local community discretion in fiscal effort would be greatly limited because the only measure of attainment of neutrality is an "expenditure test". [Sec. 204 (a)(2)]. Implicit in the adoption of this particular test is the philosophy that the level of education should not be dependent on the aspiration or apathy of the parents, neighbors or community. This presumes that a state school finance program should have definite minimums and maximums which will not allow local prerogative beyond some predetermined level. The "expenditure test" would foreclose the possibility of a State acquiring fiscal neutrality through the use of variable effort guaranteed yield or district power equalization programs. Some states may quite validly object to the "expenditure test" on the ground that it requires a shift of discretion from the local to the State level.

In view of this, the Committee may want to give consideration to alternative tests similar to the equity tests for charge-back of Impact Aid (Public Law 81-874). Such flexibility is probably needed in view of the many and diverse methods used for allocation of resources among the states. Also, at this point, it is uncertain what impact capping-off of local tax initiative will ultimately have on the quality of education in this country. Conceivably, a state could fully equalize among school districts meeting the "expenditure test", but not provide sufficient funds to give any of the children an adequate education, much less a quality one. This has been the experience of Florida during the past few years when the legislature capped-off local property tax levies at eight mills, raised the required local effort to about 6.3 mills, and then failed to provide sufficient State aid to offset the loss of local revenues. Today, Florida ranks among the lowest of the States in tax effort for education. The State aid program is equalized, but financially inadequate. Some type of "neutrality" test along with the expenditure test would give the states needed options in redesigning their school aid programs without forcing them into a Florida type of situation.

The moral and philosophical desirability of "fiscal neutrality" is not merely a statewide phenomenon. All children nationwide should have equal opportunity and equal access to an education regardless of the economic circumstances of the State in which they attend school. While the Federal government is not consti-

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tutionally required, in the Serrano⁹ sense, to fiscally equalize among the states, it nevertheless has an equitable responsibility to all school children in the United States. Frentz observes, quite rightly, that "... even if spending in all districts within every state were uniform, the resulting variation between states would remain wide. For this reason, parity in the apportionment of educational resources demands that there be intervention above the State level in the financing of education."¹⁰ The National Educational Finance Project maintained that one of the principal purposes of general Federal aid should be to "equalize educational opportunity among the states."¹¹ Unfortunately, H.R. 1138 does not equalize among the states beyond the minimal impact of a flat grant. Both the Basic Grants and the Equalization Grants would have the effect of equalizing intrastate but not interstate.

Several studies have recommended Federal general aid programs with equalizing features. Johns devised a federal foundation program which would allocate \$800 per student to each State minus 4 percent of the State's total personal income.¹²

⁹Serrano v. Priest, 96 Cal. Rptr. 601, 487 P.2d 1241 (1971).

¹⁰Anne S. Frentz, "The Utilization of Federal Aid Programs to Further Interstate Equalization in Educational Spending," Educational Administration Quarterly, Volume 11, Number 3, (Autumn, 1975), pp. 99-121.

¹¹National Educational Finance Project, Alternative Programs for Financing Education, p. 212.

¹²Ibid., p. 221.

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Johns' model could easily be applied to the Equalization Grants of the present legislation by beginning with a low charge-back against the \$200 per ADM first year and graduating the charge-back as the allocation increases. This type of provision appears to be particularly attractive since it is conducive to political compromise, and the level of equalization can be easily strengthened or moderated depending on the amount of the grant.

Another variation could be "state power equalizing" which would guarantee a specific amount of money for each percentage point of personal income devoted to education.¹³ The Federal government then grants an amount equal to the difference between what the State raised and the amount the average State would raise with the same rate. Each State would be guaranteed at least the yield of the average State. Of course, each State could be guaranteed a level higher than average, possibly the 75 percentile or that of the richest state in the country.

In considering both plans, the Johns' model is probably superior since it can easily be adapted to the present Bill and carry with it full equalizing benefits for all states. The latter formula suffers primarily in that Congress would not be able to accurately predict the "demand" which increased State effort might place on Federal funds.

Personal income seems to be the most commonly accepted measure of State fiscal ability. Arguments can and have been

¹³Frentz, "The Utilization of Federal Aid Programs to Further Interstate Equalization in Educational Spending," Educational Administration Quarterly, p. 111.

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made against its use because it does not identify all possible sources of taxpaying capacity. Some experts maintain that the only fair and comparable measure is a representative or uniform tax system.¹⁴ It is validly observed that some states have much greater taxing capabilities than personal income reveals because of unique circumstances which allow the State to shift the incidence of taxation to residents of other states.¹⁵ A case can also be made for using disposable income rather than personal income because deductions must be made for individual necessities.¹⁶ All things considered, however, personal income is the most complete, valid, and up-to-date measure which can be used to compare State fiscal capacity.

Whether fiscal effort of the State should be taken into account is an additional question which should be considered. The Bill does not indicate a Federal interest in stimulating State effort to support education. Effort could be included in a formula in several different ways with varying degrees of impact. One method which could be utilized in the context of either the Basic or Equalization grant allocations would be to

¹⁴Will S. Myers, "The ACIR Study of State Revenue Potential." A paper presented at the National School Finance Conference, Orlando, Florida, March 18, 1974. See: Measures of State and Local Fiscal Capacity and Tax Effort, Advisory Commission on Intergovernmental Relations, Washington, D.C., 1962.

¹⁵William E. Sparkman, The Relationship Between Selected Socioeconomic Variables and State Effort, Ph.D. Dissertation, University of Florida, Gainesville, Florida, 1975.

¹⁶R.L. Johns and Oscar A. Hamilton, Jr., "Ability and Effort of the States to Support the Public Schools," National Educational Finance Project, Gainesville, Florida 1970.

determine the percentage which State and local revenues are of personal income of each state and relate that percentage to the national average percentage. The resulting ratio could be multiplied times the amount of funds allocated to each state. If a State has, say, 90 percent of the national average effort, it would receive only 90 percent of the allocation amount. Another alternative is the previously mentioned "state power equalizing" formula.

Whether effort provisions would stimulate states to invest greater amounts in education is debatable. Such formula features have been criticized in the past on the ground that they merely deprive needy children of resources to which they are entitled. Certainly, if the incentive or penalty is of great magnitude, then children in states where the power structure holds education in relatively low esteem may be unduly punished. A low amount of funds such as that envisioned for the first year or two of H.R. 1138 would probably be of little consequence to the determination of total State effort. In view of the uncertainties of fiscal impact and State response, as well as the equitable considerations, an effort provision should probably not be included.

Educational need is an important aspect of educational equality. Where children have educational needs which are not uniform in incidence and the corresponding costs of services are excessive, then government should recognize the needs in allocation formulas. A comprehensive school finance system should address both fiscal and educational needs.

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Although H.R. 1138 may constitute general aid, it is not comprehensive in the sense that it is intended to subsume the many categorical grants which are designed to meet specific, nationally recognized educational purposes. With Federal subventions, including major needs for compensatory education, handicapped children, and vocational education, the necessity for including educational need factors or cost differentials is obviated.

Equal educational opportunity, then, will be accommodated if the present Bill is amended to include a factor to equalize fiscal ability among the states and the appropriation for implementation is sufficiently high to provide a strong Federal financial involvement in elementary and secondary education. Fiscal effort and interstate educational need provisions are not necessary at this time.

Constitutional Restraints

General Federal aid to education has, since 1870, been bedeviled by three factors: (1) civil rights for minorities, (2) private religious education, and (3) concern over Federal control.¹⁷ With the Congressional and judicial actions in the past generation, the civil rights position toward general aid has been substantially ameliorated. Concern over Federal control is still present but general aid is more commonly seen as pref-

¹⁷ John F. Jennings, "Federal General Aid - Likely or Illusory?" Journal of Law and Education, Volume 2, Number 1, January, 1973, p. 90.

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erable to continued proliferation of categorical grants. The major issue which is not, yet, solved or even mitigated, is that of aid to parochial schools. First Amendment prohibitions against entanglement of church and state are quite specific in forbidding State or Federal assistance to religious schools.¹⁸

I see no substantive difference in the Court's position now which would permit parochial school proponents to assume that a general aid program today would be any less objectionable than it was two decades ago. The Bill as now written relies on the child benefit theory and certain other language which requires nonsectarian use of the funds by private schools. The specific language in the Bill stating, "... will provide for the benefit of such children in such schools secular, neutral, or nonideological services, materials, and equipment including such facilities as necessary..." would appear to offend two of the tests which the Court has laid down as standards in these two cases. The primary effect would appear to "advance religion" and the machinery necessary to assure compliance would probably offend the "excessive entanglement" test.

In short, the rationale for private school disenchantment with general aid cannot have abated in recent years with the more definitive stance of the Supreme Court on separation of church and state.

¹⁸Heek v. Pittinger, 95 S.Ct. 1753 (1975).

Conclusions

Increased Federal assistance to education is greatly needed and a large general aid program would seem to be the proper delivery mechanism. As designed, H.R. 1138 gives proper emphasis to equality of opportunity and would surely serve to stimulate greater equality among local school districts. The genius of this particular legislation derives from its option value which gives a State the opportunity to choose an equalization or a nonequalization approach with a major fiscal incentive for those choosing to tackle the pervasive problems manifest in attaining school district fiscal neutrality.¹⁹

The Basic Grants provision advances the laudable and reasonable goal of educational needs assessment, a requirement which all school districts and states should be able to accommodate. On the other hand, the requirement that the local school district application to the State agency include "effectiveness" evaluation based on educational achievement in relation to funding is a much more complex standard. Here the standard is one of educational outputs in relation to dollar inputs, cost-effectiveness analysis. At the present level of sophistication, school districts would generally be unable to provide meaningful information to accommodate this provision. Further, the suggestion of measurement of educational achievement raises the specter of

¹⁹Jennings, "Federal General Aid - Likely or Illusory?" Journal of Law and Education, p. 108.

nationally required testing. Some modification or explication of Section 103 might be in order to alleviate such fears.

Federal-State relations in education in recent years tends to deteriorate as Federal agencies are given more unlimited prerogative in implementing legislation. This could be avoided with more carefully circumscribed legislative delegation which would reasonably limit, without improperly restricting, Federal administrators. With proper implementation, Federal-State relations would be enhanced by a general aid program of this type.

Without the threat of judicial action, most states have little incentive to erase the fiscal inequities apparent in their school finance programs. This Bill would promote reevaluation of present State aid formulas and as the funding level increased it would pay states to move toward complete fiscal neutrality. This primary feature of the Bill is well contemplated.

A major problem, though, not resolved is the issue of interstate equalization. The equitable rationale for fiscal neutrality is as applicable at the Federal level as at the State. The allocation formula should include a fiscal equalizing provision which would moderate the State fiscal incapacity.

Finally, the issues of church and state are still as apparent as ever and the language of the Bill, while well conceived, is probably constitutionally objectionable.

Dr. ALEXANDER. Mr. Chairman, members of the committee, it is a pleasure for me to be here this morning and testify concerning H.R. 1138.

In my opinion, general aid to elementary and secondary education is long overdue in this country. I view this bill as a form of general aid to elementary and secondary education, as well as a stimulus to bring about increased equalization with the States.

Benefits accruing to the Nation from education are of such magnitude as to justify much greater Federal investment. Federal expansion of categorical assistance with corresponding increase in control has been a major concern to educators. Much of the disenchantment with the present categorical grant system emanates from a historical distrust of centralization of governmental power.

Education is possibly the best example of a continuing recognizable federalism in this country. Even with the multiplicity of controls which are attached to categorical grants, public education in this country compared to other countries maintains a great diversity of purpose, and is in fact a free marketplace for acquiring knowledge and improving and developing human capital.

Under State and local control the American system of education has been successful far in excess of the centralized systems of other countries.

The present bill, H.R. 1138, introducing the School Finance Act of 1977, represents an attempt to correct the inadequacies of our present educational grant system without drastic and possibly detrimental restructuring. It represents a major change in Federal policy.

In evaluating a bill of this type, there are certain criteria which school finance people, school finance experts, would place on any type of allocation formula.

I would like to quickly review these for the committee, and apply them to this bill.

The first criterion is, does the program promote development of adequate public school programs in each State.

The second, does the program provide for administrative arrangements conducive to sound Federal-State relationships.

Three, does the program equalize educational opportunity.

Four, is this program consistent with applicable Federal constitutional restraint.

Concerning the first, adequacy of programs, under this bill local education agencies will be required to submit applications to State agencies which include an assessment of educational needs of all children in the State. This requirement of assessment of educational needs in my view is appropriate, especially where the result is a plan which would improve the present educational program statewide.

However, the measurement of educational effectiveness, a second standard in the basic grants provision of the bill, is more complex. The term 'effectiveness' suggests the use of input, output and analysis to identify alternative mechanisms to produce a more adequate or quality educational program. To date, effectiveness studies have yielded few reliable results.

Cost effectiveness analysis is probably unrealistic with the present state of technology within the States and among the school districts.

It may be well for the committee to consider de-emphasizing or more careful circumscribing the requirement of effectiveness in relationship to achievement in the bill. Concerning Federal-State relations, there are at least two issues. There is the delegation doctrine, and the role of the Federal Government in education.

A major concern of educators in recent years has been the tendency of the Federal Government to restrict or restrain local educational prerogative. The encroachment usually does not emanate from statute, but from regulations of administrative agencies.

In this bill, there is certainly language which gives the Commissioner of Education very broad prerogatives. Of particular concern in 1138 is the provision, Section 104(a), which requires that in order to participate a State agency must submit an application 'in such detail as the Commissioner deems necessary.' It might be well for the committee to more carefully describe what the application is to entail.

This power given the Commissioner narrowly interpreted might mean little or no Federal encroachment. However, more broadly interpreted it might be viewed as involvement of the Federal Government to the extent of planning for use of all local funds.

The third element of an equitable program is equal educational opportunity.

In equal educational opportunity there are two aspects, fiscal equality and educational need equality. As the bill is now written, local community discretion and fiscal effort would be greatly limited because there is only one measure of attainment of neutrality, the expenditure test.

This may mean that in order to accommodate the requirements of this legislation, that a State would have to adopt a minimum foundation program or a program with minimums and maximums, with cap-offs or limitations on millage on local school districts in order to meet this expenditure test.

It might be, again, well for the committee to consider the alternative tests which are used now in the impact aid law. Under that, you have a fiscal neutrality as well as an expenditure test.

With the fiscal neutrality test you would add the option for a State to have some local prerogative in adjusting local millage rates, and having that equalized.

The second test or the second aspect of fiscal equalization is Federal neutrality. Unfortunately, H.R. 1138 does not equalize among the States beyond the minimal impact of a flat grant. Both the basic grants and the equalization grants would have the effect of equalizing intrastate but not interstate.

Johns devised a Federal foundation program a few years ago which might be applicable to this particular bill. In this, there is a small charge-back against the personal income of a State. It would equalize the first year the \$200 of equalization grants or the funding of the basic grants.

Another consideration might be State power equalizing as advanced by Anne Frentz. Should State effort be taken into account? Probably not. The issues concerning State effort and the alternative measures of fiscal capacity are not sufficiently precise, I think, to hold the State accountable for equal fiscal effort, or to have average fiscal effort.

There are arguments against tying States to certain amounts of fiscal effort, one being simply that States would not respond. Another is that if they do not respond to higher fiscal effort, the children are penalized and not the taxpayers.

Educational need, the other aspect, I believe, is well covered in other categorical aids at the Federal level. There should not, in my opinion be an educational need or cost differential provision in this particular bill. This bill, as I see it, is not intended to subsume other categorical aids, but to supplement them.

With the maintenance of the compensatory education programs, vocational, the handicap programs at a high level, the necessity for educational need factors in or cost differentials is obviated.

Finally, constitutional restraints, and goes slightly beyond the finance perspective. I believe that in view of the recent court decisions and Federal impetus in areas that you would not have a major question concerning the civil rights issues.

However, I do feel that you still have the church-state question in this particular bill, primarily because it is general aid, and in view of *Meek v. Pittinger* and more recent Supreme Court pronouncements.

Finally, I would summarize by saying that this bill, which is general aid in nature, is greatly needed. The genius of the particular legislation derives from its optional value, which gives a State the opportunity to choose an equalization or nonequalization approach with a major fiscal incentive for those choosing to tackle the pervasive problems of fiscal neutrality within their States.

The basic grants provision advances the laudable and reasonable goal of educational need assessment. However, on the other hand, I believe that the effectiveness evaluation which is entered into the basic grant provision might be questionable in terms of current State technological development.

Finally, I would say that the intrastate equalization provision in the bill would probably increase and promote or be substantial incentives for States to equalize.

I do believe that States should be given credit in the bill for equalization with a fiscal neutrality provision, and not just the expenditure test.

Finally, I would say that I believe that this bill in particular should have an interstate equalization provision.

Thank you, Mr. Chairman.

Mr. MOTT. Thank you, Dr. Alexander.

We will next hear from Mr. Allen Odden, Director, Education Finance Center, Education Commission of the States.

STATEMENT OF ALLEN ODDEN, DIRECTOR, EDUCATION FINANCE CENTER, EDUCATION COMMISSION OF THE STATES

Mr. ODDEN. Thank you very much.

Mr. Chairman, and members of the committee, I would like to have my statement submitted for the record. I will try to summarize it.

Mr. MOTT. It will be so submitted.

Mr. ODDEN. Thank you.

[The statement of Mr. Odden follows:]

TESTIMONY TO THE SUBCOMMITTEE ON ELEMENTARY, SECONDARY
AND VOCATIONAL EDUCATION

The Honorable Carl D. Perkins, Chairman
U.S. House of Representatives

September 28, 1977

By

Allan Odden, Director
Education Finance Center
Education Commission of the States
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Mr. Chairman and members of the Committee. I am pleased today to be able to address the Committee on two major concerns related to H.R. 1138 and a federal role in producing greater equalization of elementary and secondary education finance structures. The topic can be divided into two sections: first, equalization of education resources among states and second, equalization of education resources within states.

I would like to concentrate my testimony today on ways in which current federal categorical aid programs contribute to or detract from interstate equalization; different definitions of equalization and their implications for different kinds of state and federal policies; the interaction of current federal categorical programs with intrastate equalization objectives; and the nature and effects of current federal efforts to assist states directly in developing equalization programs. The latter includes efforts of the School Finance and Productivity Division of the National Institute of Education (NIE), the use of funds under Section 842 of the Education Amendments of 1974 and other research sponsored by the U. S. Office of Education (USOE).

I. INTERSTATE EQUALIZATION

Principles of fiscal federalism suggest a major role for the federal government in education financing.¹ Fiscal federalism principles suggest that

1. Richard A. Musgrave and Peggy B. Musgrave, Public Finance in Theory and Practice (New York, N.Y.: McGraw-Hill, 1973) pp. 622-676.

when a governmental function redistributes income from low income to higher income households or when the benefits of the function spill across local or state boundaries the function should be financed in substantial part by the federal government. Education is an activity in which the benefits clearly cross state lines, benefiting the nation as a whole, while it also is a function that tends to redistribute income.

The basic reason for state programs of public school equalization aid is that fiscal capacity is distributed very unevenly across school districts in a state and, as a result, expenditures per pupil also vary among school districts. It is not uncommon for wealth and income to differ by factors of five to one and for expenditures to differ by factors of three to one across school districts in many states.² These school finance inequities are equalled, and in many instances exceeded, by similar kinds of inequalities across the fifty states. For example, it is estimated that for the 1976-77 school year, expenditures per pupil ranged from a high of \$2929 to a low of \$1072 across the fifty states, a difference of about three to one.³ Similarly, fiscal capacity across states, as measured by per capita income, varied from a high of \$8815 in 1975 to a low of \$4041, a difference of more than two to one.⁴ While differing pupil needs and education costs might account for a portion of these differences, they do not account for the wide range of differences. Since

2. See, for example, Allan Odden and Phillip E. Vincent, Analysis of the School Finance and Tax Structure of Missouri: Background Research of the Educational Finance Committee of the Governor's Conference on Education (Denver, Colo.: Education Commission of the States, 1976) and Allan Odden and Phillip E. Vincent, Report of the Task Force on School Finance and South Dakota State Board of Education (Denver, Colo.: Education Commission of the States, 1976).

3. Fall, 1976, Statistics of Public Elementary and Secondary Day Schools, Advance Report, National Center for Education Statistics, U.S. Department of Health, Education and Welfare, Washington, D.C..

4. Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, (Washington, D.C.: Government Printing Office, 1977), p. 253.

these expenditure and wealth differences are correlated, the country faces significant inequities across states in the education services made available to public school pupils. Even though education is a function reserved for the states by the U.S. Constitution, only the federal government is able to enact policies to eliminate or reduce these interstate inequalities.

There is strong rationale for a federal program of interstate equalization aid from both a theoretical perspective and from the actual inequalities in education services and fiscal ability to provide those services that exist across states. Such a program could be designed on a basis similar to those that states use to equalize intrastate aid. The dollars would flow to states inversely to fiscal capacity and, especially for federal programs, cost of education adjustments would be necessary. Such a program, however, would be very expensive with costs that could run into billions of dollars.

Even though the federal government may not be able to meet the costs of interstate equalization at this time, it should develop plans for such a program because only the federal government can eliminate the major inequities in the educational opportunities available to children across states.

Interstate Equalization by Federal Categorical Programs

A more immediate issue of concern is the redesign of the allocation for many of the current federal categorical aid programs in order to give them some interstate equalization characteristics. Most allocation formulas for the present set of federal education programs allocate a fixed dollar amount on a per pupil basis to each state. No federal allocation formula considers directly the fiscal capacity of states or local school districts in calculating the amount of aid to which a state or district is entitled. Although the allocation formula for Title I of ESEA produces a mild equalizing aid flow among states, relative to income, it does so primarily because the

eligible student population is defined as a combination of children from poverty and welfare families. Thus, while the federal dollars may flow on the basis of identified need of student populations, they do not necessarily flow in an equalizing manner, i.e., also inversely to fiscal capacity. I am suggesting that within the current federal categorical programs there are ways to make changes in the aid allocation mechanisms to produce a mild interstate equalization in the flow of the federal aid.

In doing this careful attention needs to be given to accurate measures of state fiscal capacity, including measures for a given year as well as the changes in those measures over the past three to five years. Some states that may appear above average in wealth today have experienced a relative decline in wealth over the past years while other states that appear below average have been experiencing relatively large increases. These changes over time should be recognized.⁵

While current federal allocation formulas do not consider fiscal capacity, some attempt to account for differing education costs across states. For example, the Title I formula allocates funds based on the number of eligible pupils multiplied by a state's average expenditure per pupil, with a lower limit being 80 percent of the national average expenditure per pupil and an upper limit being 120 percent of the national average. Proposed new allocation formulas for Johnson-O'Malley funds also use this cost adjustment mechanism. But this adjustment for differing education costs is crude at best and is probably only marginally related to differences in education costs. Higher state average expenditures tend to occur in states with higher per capita incomes while lower state expenditures occur in the lower income states. Thus, the cost adjustment

⁵ See, for example, John Shannon, "Measuring the Fiscal 'Blood Pressure' of the States, - 1969-1975," Information Paper (Washington, D.C.: Advisory Commission on Intergovernmental Relations, February 1977).

formulas in some federal programs produces a disequalizing flow of aid, allocating relatively more aid to states with greater fiscal capacity, i.e., higher income. The elimination of any adjustment for education cost differences and the allocation of a flat dollar per pupil for each eligible pupil, as is proposed under the Federal Education of All Handicapped Children Act, eliminates the gross disequalizing aspects of the current cost adjustment, but it still leaves federal aid allocation unadjusted for the considerable cost differences that exist across states.

It would be best for the federal government to adjust aid allocations for cost differences directly with a state by state cost of education index developed on the basis of fundamental supply and demand theory in economics. The Education Commission of the States (ECS) has used such a methodology for calculating cost of education indices for each school district in the state of Missouri.⁶ A similar project is just beginning in California. The same technique can be used to develop state by state cost indices. NIE has funded research in this area, the results of which may produce a method for developing such cost of education indices for the states.

II. INTRASTATE EQUALIZATION

There are at least two alternative equity standards used to assess intrastate equalization. These two very different equity standards for school finance produce different fiscal results and are associated with different kinds of school finance programs. One standard of equity, expenditure per pupil equality across local school districts, is focused on students. Its objective is to reduce the expenditure gap between high and low spending school districts and provide equal education resources across school districts. This equity

6. Jay G. Chambers, Allan Odden and Phillip E. Vincent, Cost-of-Education Indices Among School Districts (Denver, Colo.: Education Commission of the States, 1976).

standard is associated with school finance programs under which either the state assumes fully the cost of education or the state establishes a foundation program at a high level with very limited local leeway. The expenditure figures under these systems can be adjusted for differing pupil needs and education costs.

The second equity standard, fiscal neutrality, is focused more on taxpayers. Its objective is to reduce the relationship between local wealth and the quality of education and to make the ability to raise education dollars equal across all school districts. It is associated with school finance programs that are called district power equalizing, guaranteed tax base, guaranteed yield or percentage equalizing. None of these programs are aimed at reducing gaps in the expenditures per pupil. Empirical results in most states indicate that they do not reduce expenditure gaps.⁷

Both Title I and Title II of H.R. 1138 have, as a major objective, the reduction of expenditure per pupil differences among school districts in a state. Many state policymakers feel that expenditure equalization is more important than the fiscal neutrality standard, as do many school experts.⁸ Nevertheless, many states have chosen fiscal neutrality as the equity standard for their school finance structures and federal policymakers must be aware that those states will not be happy with a new federal program for which their state would be eligible for aid only if it adopted a different equity standard and changed its school finance structure accordingly.

7. Allan Odden, "School Finance and School Finance Reform in Michigan and Missouri: Impact on Suburban School Districts", (A Paper presented at the School Finance Reform and Suburban School Districts Meeting, September 15, 1977, Chicago, Illinois).

8. States with mainly guaranteed tax base types of programs are: Alaska, Arkansas, Colorado, Connecticut, Delaware, Illinois, Kansas, Massachusetts, Michigan, Missouri, New Jersey, Ohio, Pennsylvania, Rhode Island, Vermont and Wisconsin.

It is important to take the states' role into consideration in discussing a federal role in intrastate equalization because states have taken dramatic strides in the 1970s in enacting more equalizing structures of financing elementary and secondary public schools. States have spent literally billions of dollars in major new programs that have: 1) funnelled more dollars into low wealth and low income school districts; 2) increased dramatically the education services provided to handicapped students, bilingual students and compensatory education students; 3) reduced considerably property tax burdens, both statewide and for low income households; and 4) assisted fiscally pressed city school districts and high cost, but poor isolated rural school districts.⁹

Relationships Between Intrastate Equalization and Federal Categorical Programs

Apart from choosing between these two different equity standards or the particulars of H.R. 1138, however, there are still some important issues related to the ways in which current federal categorical aid programs interact with state equalization goals. With respect to state categorical aid programs, which have expanded considerably in the past five years, there is evidence that when such aid is allocated to school districts on the basis of pupil need only, higher wealth and higher income school districts are able to identify relatively more needy students and receive relatively more state categorical aid.¹⁰

This phenomenon has been most acute for state special education categorical programs that allocate a percent of excess costs based only on the number of

9. John J. Callahan and William H. Wilken, eds. School Finance Reform: A Legislators' Handbook (Washington, D.C.: The National Conference of State Legislatures, 1976) and Advisory Commission on Intergovernmental Relations, Property Tax Circuit-Breakers: Current Status and Policy Issues M-87 (Washington, D.C.: Government Printing Office, 1975).
10. William H. Wilken and David O. Porter, State Aid for Special Education: Who Benefits? (Washington, D.C.: National Conference of State Legislatures, 1976); and John Callahan and William H. Wilken, School Finance Reform: A Tale of Three States - Minnesota, Maine and Massachusetts, (Washington, D.C.: National Conference of State Legislatures, September, 1976).

identified handicapped students. Thus the P.L. 94-142 aid formula, while providing federal support for special education services, may detract from the equalization objectives of a state's general aid formula. ECS is currently studying this problem, with NIE funding, in the states of Connecticut, Florida, Missouri and Oregon. ECS is also studying the relationship between state equalization objectives and the flow of ESEA Title I dollars in the states of Florida, New Jersey, New York and Texas. We will provide the committee with the results of these studies, both of which should be completed by the end of November.

Disequalizing results can occur when capital outlay and debt service is excluded from equalization programs.¹¹ It might be wise to reconsider the limitations of the use of funds received under H.R. 1138 for capital outlay or debt service expenditures.

There have been prolonged attempts to make federal impact aid compatible with equalization goals in those states that have enacted and funded fully comprehensive school finance reform programs. Two lessons should be learned about making impact aid and state equalization program compatible. The first is that consideration must be given to those numerous states that have taken the lead in designing, enacting and funding equalizing school finance structures. The second is that it should not take over three years to develop, write and approve federal rules and regulations that allow the programs to be more compatible.¹²

Many states have recognized that all education aid, general and categorical, should flow according to both need and fiscal capacity. In these states not

11. John Augenblick, Systems of State Support for School District Capital Expenditures, (Denver, Colo.: Education Commission of the States, 1976).

12. See John J. Callahan, William H. Wilken, et. al., Impact Aid and Basic State School Finance Programs: Can They Be Made More Compatible? (Washington, D.C.: National Conference of State Legislatures, 1976).

only is the general aid formula equalizing in nature, but the categorical aid flows are also equalizing. The result is an overall state school finance system that meets a full equalization criteria. Florida, Utah, New Mexico, South Dakota, South Carolina and Tennessee are states that have adopted pupil weighted school finance formulas that allocate, through one equalization program, aid based both on special pupil need and local fiscal ability. New Jersey is a state that maintains separate categorical aid structures but utilizes an equalization mechanism, that recognizes both need and fiscal ability, in each categorical aid allocation. In such states, it is reasonable to comingle federal and state funds targeted on the same student populations. Such a joint allocation mechanism would fully recognize federal program objectives but would eliminate the possibilities of the federal funds that would produce disequalization in the state finance plans.

Current Federal Programs Fostering Intrastate Equalization

Finally, I would like to mention some of the federal research and policy initiatives fostering intrastate equalization objectives in elementary and secondary education finance. The School Finance and Productivity Division of NIE has sponsored, with a very limited budget, an exciting, substantive and effective program in school finance. Their support of a series of cost-sharing school finance study grant awards to states seriously considering reform legislation, administered by the Legislators' Education Action Project of the National Conference of State Legislatures, has resulted in major school finance reforms enacted this year by the states of Missouri, South Carolina, South Dakota and Tennessee. With their support, the ECS Finance Center distributes the only national school finance newsletter and has produced research on declining enrollments, the effect of retrenchment in education on women and minorities, alternative measures of school district wealth, equalization issues associated with

capital construction and debt service, the regressivity of the property tax and the compatibility of federal and state special education programs. NIE has also funded the only research on the impacts of school finance reform, analysis of pupil weighted school finance programs and the development of cost of education indices.¹³

Obviously, with Section 842 funds the federal government has spent approximately \$12.5 million assisting states in the development of equalization programs. The results of the use of these dollars will not be known for at least a year or two, since most state plans are not due until next fall, but the Congress should watch closely the benefits it receives from that kind of assistance.

If Section 842 is renewed, however, even at a lower funding level, I would strongly urge the Congress to give the legislature or the governor in a state access to use of the funds on an equal basis with state departments of education. While many departments are using the money effectively, many legislatures have been frustrated in trying to obtain use of the funds and they are the body ultimately responsible for changing school aid structures in states.

The Missouri Governor's Conference is a good example of an effective coalition of policymakers that should be involved in the use of federal dollars such as those under Section 842. The Conference included representatives from the governor, legislature, state department of education, education interest groups and citizens for the study of school finance and the development of a more equitable state equalization plan. The NIE cost-sharing award was a major factor in the passage of the new Missouri school finance plan.

13. The U. S. Office of Education has also supported research on cost indices.

In conclusion, I would like to make two points. The first is that, within the present constellation of federal education programs, there are significant modifications that could be made that would enhance both intra- and interstate equalization goals and I urge the committee to consider recommending such modifications, based on sound policy analysis. The second is that there are compelling substantive reasons and interstate inequalities in education opportunities that support a major federal initiative in interstate equalization.

Mr. ODDEN. What I would like to do is first summarize some major overall issues related to a Federal role in inter- and intrastate equalization, and then end with a few comments specifically on H.R. 1138.

I would like to break my discussion into two parts: One, the interstate equalization issue, and two, the intrastate equalization issue.

In terms of the interstate equalization—that is, equalizing educational services among States—I think there are both theoretical and substantive economic arguments for a Federal role in this area, as well as very practical reasons in terms of inequalities across States.

In terms of economic fiscal federalism principles, as it were, most economists would argue that when a function like education has what is called benefit spillovers—that is, when the benefits of providing educational spillover across local school districts, as well as across State lines—and when a function tends to have some income redistributive effects—that is, when the benefits of the function accrue more to those in the low income categories than the high income categories, that functions like that should be financed substantially at a higher level of government.

Right now that is the State, and I think you could push that strongly up to the Federal level. Beyond that, in terms of the practical reasons for Federal role in interstate equalization, it is simply the existence of inequalities in educational opportunities across the 50 States.

1976 to 1977 it was estimated there was probably a three to one difference in educational expenditures per child from the highest spending State to the lowest spending State, and in terms of the fiscal ability to support educational services across the State, there was about a two to one difference in per capita income.

So that both in terms of actual inequalities in educational services as measured by expenditures per child, as well as the ability to provide or raise the money to support those services, there are substantial inequalities across the States, and only really the Federal Government can deal with that kind of interstate problem.

I think at this point we all recognize that a major interstate program of equalization would cost a lot of money. At this time probably it might not be affordable for the Federal Government to engage in such a major project.

I think a number of people would probably argue that it would be better at this time to fund fully a number of the major Federal

categorical programs before getting into a major new program of Federal general aid.

At any rate, there are probably a few things that the Federal Government can do right now in terms of looking at interstate equalization. I think H.R. 1138 is a beginning at that. But in general, what the Federal Government can do at this time is to try and develop plans and policy options for a future major Federal initiative in this particular field.

I think I would list at least three things here that could be done.

One is simply an assessment of the extent of interstate inequalities in educational opportunities. That has been done, let's say, to a small degree in the past, but I think a lot more work needs to be done on that topic, so that the Federal Government would know what the status of affairs was out there among the States before a major bill or major initiative were begun.

Secondly, I think I agree with Kern that a program of interstate equalization, because of the major Federal categorical programs for pupil needs, would not meet need factors. But, I think I would argue fairly strongly that there probably should be cost of education State by State, cost of education differentials developed, because a dollar clearly buys more or less of educational services within school districts in a State, and I think the differentials across States are even more substantial.

Third would be simply the development of alternative kinds of formulas and phasing procedures for a major role in interstate equalization.

In terms of intrastate equalization, I would like to make four major general comments.

Number one, I think first the Federal Government, before it begins any attempt at intrastate equalization, needs to look fairly carefully at the major accomplishments that have been made in the States, especially in the 1970s, in terms of equalizing State structures of financing elementary and secondary schools.

I think we probably would count up to 25 States, just in the past five or six years, that have passed major school finance reform legislation. They have spent billions of State dollars to equalize educational opportunities.

They have put many more dollars into low spending school districts, added substantial dollars to special education, compensatory education and bilingual services and implemented programs for major property tax reform and property tax relief programs.

I think any new Federal role that is keyed on intrastate equalization needs to recognize these major events in the States that have already taken place, and be quite careful that any kind of new Federal initiative would mesh well with those efforts that have been already done in many, many States.

Second—and Kern also alluded to this—I think we need to keep in mind that there are really two very different definitions of equalization of equity in school finance. One is the expenditure per pupil equality standard, and that expenditure figure could and should be adjusted for differing people needs as well as different costs of providing similar levels of educational services.

But the expenditure equality standard I would argue focuses on kids, it attempts to equalize expenditures per pupil across school districts, or across States, and the objective is to reduce expenditure gaps between high and low spending school districts and/or high and low spending States.

The other equity standard in school financing is what is called fiscal neutrality. I would argue that the focus there is more on taxpayers and the objective really is to equalize the ability to raise educational dollars.

The fiscal neutrality standard in a sense says nothing about expenditure levels, and it leaves to local school districts or local States the decision as to what the expenditure level will be.

It allows for expenditure differences. Preliminary results from a number of States that have implemented programs focused on fiscal neutrality are showing that in fact expenditure gaps remain, they are not reduced, and in some States they are in fact increased over time.

But, the relationship between expenditures and wealth under fiscal neutrality systems have been eliminated. The point is that there are two different equalization standards in school finance that have to be recognized fairly carefully.

Again, as Kern mentioned, these two different standards have been recognized I think fairly adequately in what probably will be the revised regulations for the impact aid law.

A third issue would be not to ignore equalization or potential disequalizing effects of both Federal and State categorical aid flows, like compensatory education, special education, bilingual or vocational education.

This issue—that is, the equalization of categorical aid flows—I think has been in general ignored too much in most school finance work, and there is some emerging evidence that in many States and in some instances there can be disequalizing elements in the flow of the categorical aid.

ECS is studying this issue in the States of Connecticut, Florida, Missouri and Oregon, and the results of that study are available. We can make them available to the committee.

We are also studying effects of compensatory education, both State and Federal, in the States of Florida, New Jersey, New York and Texas, and we will make the results of that study available to the committee when it is finished.

I think the fourth general issue for intrastate equalization is that what is badly needed is additional work on assessment of inequalities in terms of equalization that exists within States. This is really, I think, a long time study envisioned to have been done by NCES.

It really has not been done. There has been some work done, a little bit, on this in the past. The new regulations for impact aid I think are a good beginning. I might add that they probably have been really too long in terms of being developed.

I think, number one, a lot more needs to be done on this particular issue, both on the conceptual and empirical level. It clearly needs to be done again before the Federal Government plunges into a major program of intrastate equalization, because an

assessment of the degree of inequity within States really is needed before another major new program is engaged in.

In terms of specifics on H.R. 1138, Title I, I think the focus is primarily on expenditure per pupil equality, but again, there really is no relationship in terms of the way the dollars would flow to local fiscal ability, other than that the dollars, the flat grant, would flow to the below average spending districts.

I think rather than simplify the grant considerable attention could be given to some kind of a sliding scale to the local school district's wealth or ability to support services.

In terms of Title II, which is really a massive Federal program of general aid—again, Kern mentioned this, and I strongly agree with him—there really was no interstate equalization aspect to the bill as it was formulated. I think I would argue fairly strongly that a major Federal initiative for general aid should have a substantial interstate equalization component to it.

I think I would also add that there is some research, and I think the result is rather consistent that the inequities that we are finding in current operating expenditures among and within and between States exists also for capital and debt service expenditures.

I would at least suggest to the committee that they might consider removing the severe limits in H.R. 1138 on the use of those funds for capital and debt service expenditures.

I think there are also some additional possibilities for a Federal role in inter- or intrastate equalization, wholly apart from general aid, and that would be looking at the current set of categorical programs.

There clearly would be possibilities. I am not saying that they necessarily would be politically attractive, but there clearly are possibilities for relating the interstate allocation of Federal categorical aid flows to some measure of local, State or State fiscal capacity, to lay on them some kind of an interstate equalization aspects.

Also, I think in terms of maybe becoming a catalyst for intrastate equalization, one might consider making the use of the Federal funds a little bit more flexible at the State level in terms of comingling Federal and State dollars, when the State system has both a plan and a law for a program of special education, compensatory education, with similar objectives to the same kind of a Federal program, and also an equalized general aid, and perhaps also an equalized categorical aid structure.

In terms of States that might meet that kind of a standard, I think I would suggest maybe Florida and New Mexico, both States having equalized general aid structures as well as a people-weighted program which equalizes their flow of categorical aids.

I think New Jersey could be a State that might be looked at as a State that has separate categorical programs, but which uses an equalizing formula for the flow of those categorical funds.

I think perhaps in States that recognize differential pupil need, and have a fully funded equalization program, both for general aid and for pupil need aid, the Federal Government might consider comingling those funds and providing an equalization thrust to the categoricals as well.

Last, I think just a couple of points on some of the ongoing Federal activities that already support inter- and intrastate equalization. I think the School Finance and Productivity Division of the National Institute of Education with a fairly limited budget has developed a fairly imaginative program which has been quite successful, and has been instrumental in terms of supporting major school finance reforms this year in the States of Missouri, Tennessee, South Carolina, and South Dakota.

I think also Congress needs to begin looking more at the use of the \$12.5 million that are out in the States now under Section 842 of the Education Amendments of 1974, administered by the Office of Education.

We probably wouldn't know the millage received from those funds for a year, because that is when the State plans are due. But I think that at least should be assessed.

The last comment on Section 842 would be if that section is funded even at a lower level, I strongly recommend that there be some revision in the regulations to make the access of those dollars available on a more equal basis to the legislature as well as the governor's office in addition to State departments of education.

In some States there has been great cooperation among those three groups of policy makers at the State level, but in other States the legislatures haven't for whatever reason I don't know, don't know that 842 funds are even available, and don't know that the projects are being undertaken by the State departments.

In some States they have even had great difficulty in trying to gain access to those funds. I think if it were renewed, that legislators and governors and State departments should have an equal draw on the funds without having to pass special laws.

Thank you very much.

Mr. Cross. Thank you.

Our next witness is Mr. Hodge.

[The statement of Mr. Hodge follows:]



The National Urban Coalition

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TESTIMONY

BY

MICHAEL V. HODGE

ON BEHALF OF

THE NATIONAL URBAN COALITION

ON

** FEDERAL INCENTIVE LEGISLATION FOR STATE SCHOOL FINANCE EQUALIZATION **

BEFORE HOUSE

SUBCOMMITTEE ON ELEMENTARY, SECONDARY AND VOCATIONAL EDUCATION

SEPTEMBER 28, 1977

Mr. Chairman, Members of the Subcommittee, I wish to thank you for this opportunity to appear before you. I am Michael V. Hodge, Director of the School Finance Reform Project of the National Urban Coalition. The Coalition has local affiliates in 30 cities around the country. In addition, for the past seven years, the Coalition has provided technical assistance and support to community based organizations concerned with educational quality and school finance reform. During this time we have carefully monitored the effectiveness of State and Federal school finance reform initiatives on big city school districts and on low-income and minority populations. Although recent years have shown some improvement in school finance equalization, unfortunately, we must report that both State reforms and Federal incentives such as that under PL 93-380 Section 842, have generally failed to come to grips with the fiscal problems of city school districts and the educational needs of disadvantaged youth.

Before school finance reform activity came to its present pitch, it could be said that most states and therefore the nation as a whole devoted more resources toward the education of children of the affluent than to children from poor, minority and working-class families. This was a national disgrace, particularly in light of inexcusable high minority youth unemployment rates, and never-ending reports of deteriorating educational quality. State courts have repeatedly found such systems to be discriminatory and have ordered State Legislatures to reform their financing systems. Yet, I respectfully submit to you that after seven years of State legislative involvement, the situation for urban districts is rapidly becoming

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worse. The reality of ever increasing costs and eroding revenue bases have placed big city systems and the students they serve at a decided educational disadvantage. As the 1977-78 school year opens, city school systems which are called upon to serve disproportionately high concentrations of low-income and disadvantaged youth are being forced to further reduce educational services. The Philadelphia school system is cutting 3,000 employees from its payroll, while Detroit has eliminated a number of its school programs. Schools in Toledo, Ohio, will be forced to close from October 13-January 3 because of a \$6.7 million budget deficit. Last year, Chicago, the nation's second largest school system was forced to close 16 days early when it fell nearly \$50 million below its needed revenue level. Intense fiscal pressure forced the Washington system to "freeze" a number of positions; Miami saved almost \$1 million by reducing student supplies; New Orleans established a moratorium on teacher in-service training in order to save \$250,000, and the Cincinnati Board of Education found aid-qualifying tax increases so difficult to obtain that they filed suit against the State charging that Ohio's recent reform was inadequate to provide a "thorough and efficient" education to students in urban districts.

According to a report released this week by the National Conference of State Legislatures,¹ the nation's 89 largest city

¹ Big City Schools: 1970-1975 — A Profile of Changing Fiscal Pressures.

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school districts face stagnating city tax bases while the proportions of disadvantaged students requiring high-cost education programs are growing. These cities, the report concludes, are threatened by "fiscal chaos".

Many of the educational and fiscal problems which have forced city school systems into fiscal crises have gone unrecognized in the reforms initiated by state legislatures. The fact that city dwellers must support education as well as a wider range and greater amount of municipal services from the same tax base has generally been overlooked.

In most states property wealth is still used as the sole measure of a district's ability to finance public education. This is an inaccurate measure of fiscal ability because it disregards the fact that city residents finance schools as well as huge non-educational services from a lower income base than most other districts. It is not uncommon for large urban centers to have non-school tax rates nearly twice the state average. This necessarily results in fewer dollars being available for education.

High non-education service demands are not invited by city government but are part and parcel of the special role of cities in state and national affairs. As centers of cultural and economic activity, the cities have a high degree of social interaction and attract large numbers of disadvantaged persons seeking employment. The resulting problems of high population density and large concentrations of impoverished families are predictably attended by

higher costs for police and fire protection and greater public assistance, housing and health care responsibilities. The city therefore becomes increasingly overburdened by an almost confiscatory total tax rate. The ever increasing burden of local taxes further erodes the city tax base by accelerating the flight of middle and upper income families as well as encouraging the outflow of commercial and industrial business to low-tax areas outside the central city. This only further reduces the school system's ability to compete for limited revenue.

Teachers' salaries and other labor costs are maintained at a high level in metropolitan areas, and cities must compete in the labor market against their more fiscally capable suburbs.² Repair and maintenance of school buildings built at the turn of the century are very costly, while replacement costs, especially site acquisition, are often prohibitive.

While at least 22 states have revised their school finance schemes since Serrano, many have not taken into account the special educational and fiscal needs of high density, high cost districts and systems which serve disproportionately large numbers of children in need of more expensive educational programs. Since 1971 only three additional states have funded compensatory education programs. The total funding of bilingual education is still critically below the federal contribution of \$78 million. Only Maryland, Michigan and Pennsylvania have made formula adjustments for population density. Florida is the only state to have made

² See, for example, Donald Frey, "Determinants of Teachers' Salaries in New Jersey", a study conducted for the National Urban Coalition (1977).

an adjustment for cost of living differentials and Michigan stands along in trying to lessen the pressure of municipal tax overburden.

Unless state legislative reforms take into account the pressures of municipal tax and educational need overburdens, we will not see substantial equalization of educational opportunity. Yet recent history suggests that state lawmakers are unlikely to take the needed steps without increased legal pressure or the establishment of attractive fiscal incentives for reforms.

Through authorization of Section 842 of PL 93-380, the Congress has made a commendable effort at assisting states in developing equalization plans. This has proven a tremendously useful way of stimulating state study of critical educational problems. This effort should not only be continued but should be intensified and expanded. However, the Coalition has been concerned that these state research efforts address the financial and educational pressures which impact most severely on urban districts and districts with large numbers of disadvantaged children. Since the actual studies for most states have not yet been completed, the Coalition undertook a preliminary examination of the proposed studies submitted by each state. Office of Education staff were most helpful in assisting us in this survey and in answering questions concerning the application review and approval process.

We found that the proposals varied widely in their methods

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of addressing the equity guidelines specified by Section 842. These guidelines, which included the study of cost differences occasioned by pupil needs or equivalent service costs, wealth equalization, equitable measures of wealth, tax equity and comprehensive state support for services including capital outlay, were meant to be addressed by each proposal. Many of the plans were so unspecific that it was impossible to discern whether or how they proposed to address the guidelines, and at least 25 per cent of the proposals failed to address one or more of the guidelines altogether.

Five proposals made no discernable mention of how they would address varying educational needs of pupils, while another ten did not address the problem of variations among local school districts in the costs of providing equivalent educational programs, services or facilities. Fourteen states gave no indication in their proposals that they would investigate ways of more equitably funding school construction or other capital costs, while only eleven clearly stated that they would investigate wealth measures other than the local property base as a means of judging district fiscal ability. Only five states proposed to study the effects of municipal tax overburden on their urban districts in response to the tax equity guideline.

Since many of the states intended to develop their studies after public hearings and planning meetings had taken place, a followup survey of the actual uses of § 842 funds is currently

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being pursued by the National Urban Coalition. In addition, the Coalition is very concerned about the extent of citizen involvement in the development of these plans and will pay particular attention to the extent to which States have involved minority, urban and low-income citizens.

It is recognized that in many states where school finance statutes have remained essentially untouched for a decade or more, the development of major equalization revisions and changes is a lengthy and grueling process. It is unrealistic to expect that a first-time federal incentive for school finance research will guarantee that all states will be willing or able to fully solve the complex problems posed by the uneven distributions of wealth and educational need across this country. And, while we recognize that the administration of § 842 funds was pursued in a manner intended to stimulate school finance study even in those states which are not yet prepared - either technically or politically - to address all the various equity issues, we strongly recommend that future federal incentives for equalization require greater state commitment to enacting school aid formula corrections for

- (1) funding equity for individual pupils
- (2) variations in the cost of providing equivalent educational services, and
- (3) differential abilities of LEA's to finance education from their local revenue bases.

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It is with this hope in mind that we proceed to a discussion of House Rule 1138 which is before this Committee for consideration. Title I of the bill would allocate basic grants of \$100 per pupil to local education agencies reduced by the percentage that any LEA's non-Federal per pupil expenditure exceeds 115 per cent of the State average per pupil expenditure [Section 102 (b) (2)]. The intent of this provision - to improve the quality of education in local education agencies while promoting some equalization of expenditure levels - while commendable - does not further the cause of equity. To the extent that higher per pupil expenditures are occasioned by special needs of pupils or higher educational costs for equivalent resources and inputs, any reduction in basic grant allotments would fail to promote equal educational opportunity. It is recommended that the comparative per pupil expenditure level used be calculated exclusive of additional expenditures occasioned by pupil needs and education costs.

Title II of HR 1138 envisions precisely this measure of expenditure equalization in Sections 204 (b) (2) - (b) (4) when it requires that participating states equalize expenditures of all LEA's within a 10 per cent range exclusive of federal funds, funds provided by the Act, and "additional expenditures commensurate with need and cost...". In its intent, we support the bill's efforts to encourage equal educational opportunity in this manner. Nonetheless, there are some important points that need to be made in the deliberations about how the funds appropriated under this bill

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or another equalization bill might best be spent.

First of all, we should recognize that most states do not now provide adequately for the varying educational needs of students. Less than half of the states provide for compensatory education or for additional funding to meet the needs of economically disadvantaged students. Many of these programs are poorly or partially funded where they do exist. Despite judicial rulings like the Lau v. Nichols³ decision, bilingual education was state-funded in only 6 mainly Western states as of 1975-76 in a total amount less than half (about \$30 million) than the federal contribution for bilingual programs. This deficiency impacts gravely on cities. Of the 89 cities surveyed by the National Conference of State Legislatures, about 70 per cent experienced an increase in the proportion of Hispanic pupils enrolled (between 1970 and 1975) on an average of 36.9 per cent. The large increases occurred primarily in the East and South where bilingual programs are least available.

Only Florida considers regional educational costs in any comprehensive fashion in its state aid formula, and even its cost index is being challenged in state court as being inadequate to reflect true educational cost differences among school districts.⁴ While a number of other states allocate some aid based on density, sparsity or other demographic characteristics of school districts we feel that these criteria - while valuable - are not comprehensive

³ 414 U.S. 563 (1974)

⁴ District School Board of Bay County, Florida v. Department of Education, No. 73-1747, Leon County Circuit Court.

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enough to compensate adequately for differences in educational costs.

The expectation of HR 1138 is that states who wish to qualify for such equalization aid will develop equitable allocation formulas which consider varying pupil needs and education costs within five years of the bill's enactment. Yet, preliminary indication of our experience with § 842 appropriations suggest that it takes considerable time, effort and willingness on the part of state education agencies and legislatures to accomplish these goals. Thus, if this type of equalization incentive is to be meaningful, standards for state eligibility must remain high while some mechanism for allowing states to continue their developmental efforts must be provided.

One of the major obstacles to the development and implementation of more equitable state aid formulas for states which have been making a good faith effort to do so, has been the cost of collecting and analyzing the kinds of data necessary for devising cost measures for meeting special pupil needs and compensating for variations in area prices. While the funds appropriated under § 842 were helpful in this regard, they apparently have not been sufficient to under-write the expenses of such costly efforts. It is recommended that some part of the funds appropriated under any equalization incentive enactment be allocated to states for the specific purpose of conducting needs assessments, determining pupil weightings and/or categorical approaches to meeting pupil needs and developing cost indices or other measures of varying educational costs. Such grants could be issued on a matching basis

to states which initiate these kinds of efforts.

CONCLUSIONS AND RECOMMENDATIONS

State school finance reforms have not generally addressed the special fiscal and educational problems of big city school systems. Federal initiatives such as the appropriations under Section 842 have proven a valuable means for assisting states in developing equalization plans. However, the modest size of the appropriation joined with legislative reluctance to investigate costly and therefore potentially controversial equity issues has resulted in well-intentioned but inadequate state study plans. State proposals appear to pay insufficient attention to variations in education resource requirements based on pupil-needs and area costs as well as the impact of expansive municipal service demands on available education revenue. In short, the basic unequalness in state finance systems is not being fully addressed.

It is worth noting that where general federal aid to education has fallen short of the Congressional intent it has to some extent been attributable to our failure to directly address the basic inequities of state school finance systems. By encouraging states to address these problems, expanded federal incentives grants of the type available under Section 842 can, if used wisely, have a substantial effect on school finance equalization and education resource equity.

- (1) It is recommended that the Sub-Committee on Elementary, Secondary and Vocational Education sponsor a series of regional conferences on school finance reform problems and

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alternatives. In addition to providing the Sub-Committee with information on the nature of local school finance problems,, these conferences could further be used to elicit from local citizens, education officials and state legislatures recommendations for effective federal involvement.

- (2) It is recommended that future equalization incentive legislation insist upon strict adherence to guidelines as was intended under Section 842, particularly where broad-based citizen and state legislative involvement in the planning and development of school finance reform initiatives is concerned.
- (3) It is recommended that federal incentives for states to develop equitable school funding plans be continued and strengthened and that they require greater state commitment to the development and enactment of state aid adjustments which consider (a) individual pupil needs - including the needs of economically and linguistically disadvantaged pupils - (b) variations in the costs of providing equivalent educational services, and (c) differences in the abilities of local education agencies to generate educational revenues.
- (4) It is recommended that equity guidelines such as those specified in PL 93-380 § 842 be preserved, that standards for state eligibility be stringent, and that some mechanism for encouraging states to continue their developmental efforts be provided. This objective could be met by

appropriating matching-grants to help states underwrite the costs of initiating efforts to conduct pupil needs assessments, to determine pupil weightings and/or other categorical approaches to meeting pupil needs, and to develop cost indices or other measures of varying educational costs.

Table 3. STATE AID FOR LOCAL SCHOOL DISTRICTS, CLASSIFIED BY PURPOSE, 1975-76

(In millions of dollars)

16

State	Total	Basic Support Programs	Pupil Targeted Instructional Programs								Pupil Support Services				Staff	District Characteristics			Other	Capital Grants		
			Special Education	Vocational Education	Driver Education	Compensatory Education	Bilingual-Bicultural	Migrant	Kindergarten	Adult Education	Other	Transportation	Health and Guidance	Materials and Media	Food Services	Other	Instructional Staff Support	Urban - Density	Sparsity	Other	Current Aid, n.e.c.	
Alabama	429.7	388.3	(11.6)*	28.9	4.7				0.5	0.8	(22.9)		6.5									(1.9)
Alaska	201.8	150.3									10.1											30.6
Arizona	346.6	315.4	20.5	3.0			0.9			1.0	5.5											
Arkansas	228.0	180.7	5.0	6.0					12.3	0.8	17.6	0.5	4.9									
California	2,413.6 ^a	1,783.3	244.8		18.5	107.6	8.8		110.4		49.0	**	27.4	14.9							49.1	
Colorado	354.3	300.5	24.8	9.7						0.1	13.2								2.8	0.6		
Connecticut***	239.9	164.5	30.9	1.3	0.6	7.2	2.4	0.2		0.8	9.0	0.1	0.2	0.6					0.2		0.6	22.8
Delaware	165.2	107.6	(0.9)	(1.5)							9.4										31.34	16.8
Florida	1,526.5	1,101.8 ^a	(180.7) ^{bd}	(236.7) ^{bd}							38.2	7.5	12.8	4.0	1.0						184.9	
Georgia	599.5	490.4	(43.2) ^b	7.9		10.2		(8.1)		2.8	(31.3)	0.2	(10.4)	9.0			0.5				41.34	33.7
Hawaii	274.0	130.6	9.2			9.9				2.5	6.7	12.7	12.6	19.8			5.1					64.9
Idaho	111.1	94.4	(9.0)	0.7	0.9						(8.2)										15.04	
Illinois	1,950.7	1,176.6	120.3	16.4	10.0						44.1		**	11.4			0.2				189.74	362.3
Indiana	509.9	439.6	(21.0)*	(9.0)*		(3.0)*	9.3			7.2	3.2								0.1		3.0	43.0
Iowa	397.1	386.8 ^a	(86.2)*	2.6			**			0.6 ^a	18.8								0.2		3.7	1.5
Kansas	275.5	199.4	12.1	5.1	1.2						15.0			1.4							24.5	
Kentucky	370.7	358.9	(20.4)*	(7.3)*					(2.2)*		(27.2)			11.8							30.54	(50.4)
Louisiana	573.1	502.6	(37.4) ^b	(13.5) ^b	0.2				2.1	1.2	6.1			8.4	12.6				**		102.74	92.4
Maine	127.7	127.2	(8.4)	(4.6)							(16.0)											
Maryland	580.7	265.8	43.9	0.9	3.0				0.7	0.6	46.9			4.0				(12.6)	0.2			
Massachusetts***	670.7	362.8	47.2	38.9			1.7			3.9	47.0			10.6							44.3	134.7
Michigan	1,127.0	902.5	94.8*	23.4*		25.5				2.2	62.8							(27.0)			1.3	14.6
Minnesota	839.7	587.3	38.6	13.7							62.3			1.5							2.6	
Mississippi	289.2	253.3	(8.0) ^{ab}	(27.2) ^{ab}	0.4				**	2.6	(22.6)*	0.1	3.9	0.9					133.8		0.1	8.7
Missouri	442.6	346.5	32.6	16.1							28.0			16.3	2.5							0.5

See footnotes at end of Table.

Table 3. STATE AID FOR LOCAL SCHOOL DISTRICTS, CLASSIFIED BY PURPOSE, 1975-76 (Cont'd)

(In millions of dollars)

17

State	Total	Basic Support Programs	Pupil Targeted Instructional Programs									Pupil Support Services				Staff	District Characteristics				Capital Grants	
			Special Education	Vocational Education	Driver Education	Compensatory Education	Bilingual-Bicultural	Migrant	Kindergarten	Adult Education	Other	Transportation	Health and Guidance	Materials and Media	Food Services	Other	Instructional Staff Support	District - Density	Sparsity	Other	Current Aid, n.e.c.	
Montana	145.8	140.2	(20.4) ^b	0.7	0.6							2.5		0.3							..	
Nebraska ***	85.7	71.9	10.0	0.2	0.9	(1.6)					0.2	(2.1)								2.6		
Nevada	75.0		(0.1)									(3.7)										
New Hampshire	19.5	7.7	1.7	3.0	0.6						0.2			0.4						..	0.6	3.3
New Jersey	802.4	431.8	63.5	4.2					3.4	1.8	44.9	..	9.3							2.7	204.1	54.7
New Mexico	248.7	213.9																				
New York	3,027.8	2,830.4	48.5 ^a	43.9 ^a								(230.0)	40.0 ^a	10.5 ^a								
North Carolina	814.0	735.0	(52.9) ^b	49.3	8.3							(30.3) ^b	(18.4) ^b									
North Dakota	90.6	83.1	3.6	3.9								(7.8)		(0.4)								
Ohio	3,075.7	471.6	121.5	113.5	9.3	33.3			5.1	1.9		53.7	2.2	5.2							48.4	7.0
Oklahoma	233.8	223.0	(12.1) ^b	(3.6)								(13.9)	0.8	5.0	1.2	..						
Oregon	213.7	189.2	8.0		0.7	1.0						12.1									2.6	0.1
Pennsylvania	1,481.5	1,240.1	120.6	30.2	4.2	1.0	..				15.8	89.9	13.6	5.8							0.4	159.9
Rhode Island	94.1	90.7	1.0	0.3										2.8							7.4	
South Carolina	313.5	244.5	(1.4) ^b	13.7	0.7				8.1	2.1		19.6	0.3	3.0	0.9							19.1
South Dakota	32.9	30.8	0.9	0.8								(3.3)									0.5	
Tennessee	367.3	315.2	(38.3)	13.5								(13.4)	5.4									
Texas	2,024.2 ^a	1,946.2 ^a	(209.9) ^d	(110.7) ^d	(2.8) ^d	(25.4)	(6.2)		(43.9) ^d			(46.3) ^d	37.9								(5.4) ^d	13.4
Utah	215.5	156.5	(19.2)	(8.0) ^b	0.9						3.4	7.1	2.2	3.0							30.1	3.6
Vermont	46.2	34.8	3.9	2.4	0.6																	4.5
Virginia	632.8	480.2	27.7	25.0	(1.7)	9.3			0.8			18.1		3.1							65.6 ^a	
Washington	732.1	335.0	35.4	(45.3) ^b		5.0					4.4	30.2		3.8							49.0	61.5
West Virginia	157.6	241.9	4.2	7.1	0.2						..	(7.6)		0.9							2.3	
Wisconsin	360.8	487.0	47.4	3.4	0.9						4.0	14.4		2.1	1.3							
Wyoming	29.9	28.2	(2.1) ^d	(0.4) ^d					(1.8) ^d			(3.0) ^d									3.7	

NOTE: Figures in parentheses are included in the Basic Support Program, except as otherwise noted.

^aEstimated.^{aa}See program description for amount.^{aaa}1974-75 distribution.

a. Includes employee benefits.

b. Also includes some categorical aid which is added separately in the State total. See State program

description for amount.

c. See poverty factor in Basic Support Program.

d. Includes local share of foundation program. See State program description for details.

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**STATEMENT OF MICHAEL V. HODGE, DIRECTOR, SCHOOL
FINANCE REFORM PROJECT, NATIONAL URBAN COALITION**

Mr. HODGE. Mr. Chairman, I am very grateful for this opportunity to appear today.

I would like to begin by describing some of the work of the Urban Coalition. We have some 30 local affiliates in large and small cities across the Nation.

In addition, we have been working in the area of school finance reform by providing technical assistance and support to community based organizations that are concerned with these issues.

During the past seven years we have been monitoring the effects of school finance reforms that have been initiated at the State and Federal level, particularly trying to assess their impact on minority and urban communities.

It is interesting to note that prior to the reform activity reaching its present height, it could be said with a good deal of certainty that we were spending larger amounts of money in this Nation on the education of children from affluent families than we are on children from low income minority and working class families.

These problems were particularly acute because of the extremely high unemployment rates.

Chairman PERKINS. Would the gentleman yield to me. Let me apologize for being late. If the gentleman would yield just for a few questions.

Could all the witnesses give me some idea of how far the States have gone in equalizing their resources in the last few years? I know that a number of States have enacted school finance reform legislation recently. But how many have been formally implemented?

Could you give me any idea along that line? States that have enacted school finance reforms in the way of equalizing their resources within the States.

Mr. ODDEN. Mr. Chairman, I would like to respond to that question. I would say that in the 1970s you could probably point to about 25 States that have passed major school finance reform legislation. Not all of those pieces of legislation have been funded fully.

But, I would say most of those States are in the process of phasing in those reforms, and many States in fact have phased in fully their school finance reforms. They have spent literally billions of dollars on the school finance side.

A number of States, I would say, as part of the school finance legislation have also passed major pieces of property tax reform and relief legislation, and that they have made the distribution of educational dollars more equitable within the State, and at the same time they have made major strides in making the property tax more equitable.

In addition to the 25 States that have passed new laws in the seventies, you could probably point to up to maybe five or six more States that had fairly decent school finance laws before the current wave of school finance reform began.

Chairman PERKINS. Since only 25 States have gone about equalizing within the States, do you feel that thorough equalization can be achieved without Federal assistance?

Mr. ODDEN. As a State person I probably should say no. I think the best answer to that is that there are a number of States, I would say probably most States have got the fiscal resources, they have the wherewithal, if they have not already done it, to develop and implement and fund a fairly decent intrastate equalization program.

I think one of the major problems that the Federal Government should look at, and Dr. Alexander who presented his testimony first, and I who went second, also mentioned this, is that there are substantial inequalities in educational opportunities among the States.

There are expenditure differences of the order of three to one from the highest to the lowest State, and differences in terms of the ability to support educational services in terms of per capita income of two to one across the States.

I would suggest that a major Federal role for general aid should concentrate specifically probably firstly on measures of interstate equalization, and have the minor component be the intrastate equalization aspect.

Chairman PERKINS. What kind of a role do you see for the Federal Government in helping the States to equalize? Answer this question in terms of a large-scale program, and then in terms of lesser assistance, if you can.

Mr. ODDEN. I think again I would say that the biggest factor should be on equalizing between, on interstate equalization, between New Mexico and California, for example. I would add that any kind of program for trying to equalize among the States would have to be implemented and developed with State-by-State cost of education differentials because dollars buy different amounts of educational services in one State as compared with another State.

I think there should be a component of any kind of a major massive Federal equalization plan that would make available general aid for States to allocate within the States in an equalizing way, if they met certain kinds of intrastate equalization standards.

I would suggest that what appear to be the final regulations for impact aid, the impact aid law, in terms of Section 5(d), are probably fairly decent standards against which one can measure the degree to which there exists equalization within a State.

Chairman PERKINS. Do any of you other gentlemen want to comment on the question?

Dr. ALEXANDER. I would like to comment. I am Kern Alexander, from the University of Florida. I am also familiar with the Kentucky situation. I am a native of Kentucky, and I think if you are familiar with the method used to finance the public schools in Kentucky, it is probably typical of most States.

After the fiscal equalization and the minimum foundation program of that State, you still have about two and a half to one disparity among the school districts' inability to provide an educational program, or revenues available for the children.

Chairman PERKINS. Do you see this being done unless Federal assistance is available?

Dr. ALEXANDER. No, I do not. I believe the equalization incentive of the courts has subsided to a great extent following *Rodriguez*. There is still some action in some of the States under their own State constitutions.

I don't believe you will move affirmatively towards fiscal equality within the States without some kind of Federal stimulus.

Now, with regard to this particular bill, I believe that it does have a genius to it that has not been used before, in that it gives the States the option of pursuing and some incentive and stimulus to pursue the equalization within their own school districts, among their school districts.

I would say that without this, and without the Federal Government moving to assist in this way, that we will not see many States moving towards full fiscal neutrality or meeting the expenditure test as you have devised it here.

Chairman PERKINS. Thank you very much. I want to compliment you gentlemen for your appearance here this morning. I regret that we have got the Caucus going on. However, these hearings will continue.

Mr. Hodge, you have not testified?

Mr. HODGE. No, sir.

Mr. Chairman, if I might, I would like to just add a footnote to some of the comments that were made, and that is that the 25 or so States that have undergone school finance formula changes have not looked at all of the components of the school finance formula.

In large part, this is in some cases due to the fact that many formula changes would require tremendous costs, such as the studies of cost variations within a State, or varying pupil needs.

As Allen Odden pointed out earlier, the grants available under Section 842 were very helpful in allowing States to begin to look at some of these problems. However, the appropriation that was available was in fact too modest for States to include that item as well as many others in their study plans.

I would at this point just continue with the summarization of my testimony.

The problems that I have just mentioned that have not been addressed are basically cost variations within a State as well as variations in the educational needs of pupils. Just to point that out, I would like to indicate that these problems are indeed most great in urban areas.

As an example, as the 1977-1978 school year opens, the Philadelphia school system is cutting 3,000 employees from its payroll. Detroit has eliminated a number of its school programs. Toledo, Ohio, they are suffering from a \$6.7 million budget deficit, which will force them to close schools between October 13 and January 3. In Washington a number of positions were frozen, teaching positions, because of budget reductions.

Most recently, suits have been filed in New York and Cincinnati, Ohio, which challenge the present school finance formulas which do not take into account these variations in cost and pupil needs.

These problems, primarily the cost problems, stem from the wealth measures used in most States throughout the Nation, and that is a strict measure of property wealth as an indicator of a district's ability to pay for schools.

This is particularly an acute problem in urban areas, because a number of other services are financed from the same property tax base. For example, municipal service requirements, such as police protection, fire protection, health care, hospitals, et cetera, are all financed from the property tax base, and school districts as a result have to compete against these other revenue demands, and needless to say they compete very poorly.

As a result, urban populations and these low income populations who reside there spend greater amounts of their income in support of the municipal and educational service requirements of their municipalities.

With these problems in mind, the Urban Coalition undertook a study of the applications for Federal grants to States, studying their developing equalization plans, commonly called 842, as we referred to it today.

What we have found is that indeed even though States where these kinds of problems have not begun to be addressed, few of them had made plans to undertake these kinds of studies; that is to say, area cost and pupil need differences.

I would add, however, that the intent of the 842 appropriation is a very beneficial one for the States. What we would urge with respect to 842, based on our examination of those applications, is that the Federal Government indeed again appropriate an authorization of this type which will allow States to look at the various cost differences and pupil need differences within their States.

Also, where States have already developed these indicators, we would urge that the Federal Government go even further by providing States with some kinds of matching grants for implementation of these indicators.

I would point out that I agree with the previous speakers on the need for State legislative involvement in the preparation of these equalization plans, and in school finance reform in general.

I would add, however, that it is important that we structure citizen involvement in the development of these plans as well. One way of doing that would be for the subcommittee to hold a series of regional hearings or conferences on issues of school finance reform problems, and alternative solutions.

In addition to providing the subcommittee with information on the nature of local school finance problems, these conferences or hearings could further be used to elicit from citizens, State legislators, as well as school officials, recommendations for effective Federal involvement.

In addition, we would recommend that the committee insure that the equity guidelines that are stipulated in the 842 legislation, if another appropriation is made, are strictly adhered to.

Finally, we would recommend that any future legislation require that districts focus their studies on very specific items. These I will name once again.

That would be the individual needs of pupils, which includes the needs of economically and the linguistically disadvantaged child, variations in the cost of providing equivalent services for different pupils, and variations in the ability of local education agencies to generate educational revenue from their tax base.

Thank you very much, Mr. Chairman.
 Mr. QUIE. Mr. Long I believe is the last witness.
 We will hear from you now.

STATEMENT OF DAVID LONG, LAWYERS' COMMITTEE FOR CIVIL RIGHTS

[The statement of Mr. Long follows:]

STATEMENT OF DAVID C. LONG,
 DIRECTOR, SCHOOL FINANCE REFORM
 PROJECT OF THE LAWYERS' COMMITTEE
 FOR CIVIL RIGHTS UNDER LAW TO THE
 SUBCOMMITTEE ON ELEMENTARY,
 SECONDARY AND VOCATIONAL EDUCATION
 OF THE HOUSE OF REPRESENTATIVES
 COMMITTEE ON EDUCATION AND LABOR
 ON H.R. 1138 AND OTHER ALTERNATIVES
 TO ENCOURAGE GREATER EQUALIZATION
 OF RESOURCES FOR EDUCATION WITHIN
 AND AMONG STATES.

SEPTEMBER 28, 1977

My name is David C. Long. I am a staff attorney at the Lawyers' Committee for Civil Rights Under Law and director of its School Finance Reform Project. I appreciate your invitation to discuss the role that the federal government could play in eliminating the great inequalities in educational opportunities that presently exist among school districts in many states.

This nation has long viewed education as necessary to enable children to have an equal chance to succeed in life and to realize their talents. Those who wrote the state constitutions enshrined education as the most important obligation of the state and expressly mandated state legislatures to ensure, in the words of many state constitutions, a "thorough", "efficient", "uniform", "general" or "adequate" free public educational system. These high aspirations for equal educational opportunities were heightened by the Congress which granted to states, on admission to the Union, large amounts of land dedicated to the benefit of the public schools. Congress, throughout the westward

development of the nation, played a central role in promoting these aspirations, which remain unfulfilled. Our ideals recoil from accepting governmental decisions to make available a higher quality education to some children than to others based on such capricious factors as the wealth of school districts or to perpetuate through the public educational system the disabilities of poverty and racial discrimination.

Within many states, educational opportunities differ dramatically among school districts. It is not unusual to find some districts spending two or three times as much per pupil as other districts. Such differences in expenditures translate into inequalities in educational services and facilities in areas such as pupil-teacher ratios, the availability of educational specialists, the scope and quality of the curriculum, special services for handicapped and disadvantaged students, and maintenance and sanitation. Moreover, these are inequalities caused by government itself, which compels children to participate in the unequal system it has created. These inequalities generally reflect no rational educational or economic policies as, for example, providing higher expenditures to meet greater educational needs or higher costs. Rather, they are manifestations of the uneven distribution of wealth and educational tasks among school districts throughout a state. In most states the wealth of a school district, rather than educational and cost considerations, fuels the machinery that allocates educational resources.

Since the California Supreme Court's 1971 decision in Serrano v. Priest, litigation has brought discriminatory systems of educational funding into full public view and set the agenda for reform. The School Finance Reform Project of the Lawyers' Committee has been involved in virtually all of the subsequent cases seeking reform of inequitable allocations of educational resources among school districts.

School Finance Reform Litigation

In Serrano, inequalities among school districts in educational expenditures and educational opportunities caused by disparities in local tax bases were held to violate the equal protection provisions of the federal and state constitutions. Serrano called for an end to making "the quality of a child's education depend upon the resources of his school district." The principle that educational expenditures should be determined by the wealth of the state as a whole rather than by the wealth of each school district has been termed "fiscal neutrality." In the months following this decision, over 30 cases were filed challenging inequitable school finance schemes in other states. Rulings applying the fiscal neutrality principle of Serrano quickly followed in federal district courts in Minnesota and Texas; state trial courts in Arizona, Kansas, and New Jersey; and in the Michigan and Wyoming Supreme Courts.

Less than two years after Serrano, the United States Supreme Court, in San Antonio Independent School District v. Rodriguez, virtually ended the role of the federal courts in

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eliminating wealth-caused inequalities among school districts. In reversing the earlier decision of a Texas federal district court, the Supreme Court found that education was not a fundamental interest, because it was neither explicitly nor implicitly guaranteed under the federal Constitution; nor, the Court held, did discrimination based upon district wealth amount to a suspect classification. The Court, therefore, refused to apply any heightened judicial scrutiny to the educational inequalities in the Texas system and found that they passed the most lenient rational basis test for discriminatory classifications.

However, the Supreme Court did not endorse the status quo. Instead it recognized the need for "greater uniformity of opportunity" and for reform "in tax systems which may well have relied too long and too heavily on the local property tax." Moreover, Mr. Justice Stewart, while concurring with the majority, described the Texas system as "chaotic and unjust."

Rodriguez had the practical effect of placing the equity issues pertaining to school finance squarely in the laps of state courts. State constitutions generally give explicit attention to education as a state interest of singular importance. For example, virtually all state constitutions mandate the state to provide public schools. Subsequent to Rodriguez, the supreme courts of three states, California, Connecticut, and New Jersey, have ruled inequities in their school finance systems unconstitutional.

Many people thought that the Serrano case ended in 1971. In fact, the California Supreme Court ruled only on plaintiffs'

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complaint, which a trial court had dismissed prior to trial. Plaintiffs still had to prove that educational opportunities were actually unequal as a result of expenditure differences caused by reliance on local tax bases. After Rodriguez there was also some question about whether the California Supreme Court had relied on the state constitution as an independent basis for its decision. Following an extensive trial, the lower court in California ruled for plaintiffs on both these issues, which resulted in a second appeal to the California Supreme Court. In December, 1976, the California Supreme Court affirmed the trial court's findings and its earlier conclusion that the California system of financing education was unconstitutional, asserting the "independent vitality" of the California constitution's equal protection provisions. It thus became the first state supreme court to hold unequal educational opportunities among school districts unconstitutional under the equal protection provisions of a state constitution -- unaided by the Fourteenth Amendment.

In April, 1977, the Connecticut Supreme Court, in Horton v. Meskill, in which plaintiffs also challenged inequalities caused by disparities in district wealth, followed Serrano and ruled the Connecticut financing system unconstitutional.

/ Prior to these two decisions, plaintiffs challenging such inequalities had lost before closely divided supreme courts in Idaho (Thompson v. Engelking) (dividing three to two), and Washington (Northshore School District No. 417 v. Kinnear) (three justices found the system constitutional; three justices concurred only on the facts; and three justices dissented). The Oregon Supreme Court, in Olsen v. Oregon, also ruled against plaintiffs. Two other state supreme courts faced with constitutional challenges to district wealth discrimination disposed of the claims on the basis of factual peculiarities (Arizona in Shofstall v. Hollins) or legal technicalities (Michigan in Milliken v. Green) without full consideration of the merits.

Other cases challenging the effects on educational opportunities of disparities in taxable wealth among school districts are pending in Arkansas, Colorado, Georgia, and New York. These cases are best understood by what they prohibit - inequality in educational opportunity which results from making educational expenditures a function of each school district's taxable wealth rather than the wealth of the state as a whole. These cases do not require equal expenditures; they do not undermine any rational cost or need variations which would provide different amounts or kinds of resources for different children or districts; moreover they do not prescribe the precise manner in which state aid must be distributed or what needs or costs the states must equally or differentially fund. All that the fiscal neutrality cases require is that a school district's tax base not dictate its expenditures.

The fiscal neutrality cases do not deal with every existing inequity in school funding. For example, some have criticized these cases because they do not deal with expenditure inequalities resulting from differences among districts in tax rates, or because they do not deal with the problems faced by districts with higher costs or by districts serving children needing intensive educational services, e.g., handicapped or educationally disadvantaged children.

Fiscal neutrality promises no panacea: it is possible that these other problems could remain after local taxable wealth is eliminated as a determinant of educational expenditures.

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But these cases do not prevent state legislatures or the Congress from responding rationally to the inequities created by differential costs, needs, and willingness or abilities to levy taxes for education. Furthermore, state courts in New Jersey, Washington, Ohio and New York, have been asked to address such issues directly.

A month after Rodriguez was decided in 1973, the New Jersey Supreme Court, in Robinson v. Cahill, laid the foundation for these broader attacks on inequities in educational financing. The plaintiff-districts in Robinson were not only low in property-wealth and expenditures, but also served high concentrations of urban - poor and minority children whose educational achievement was well below state norms. The low wealth of plaintiffs' districts was only one among several factors causing inequalities. Although it rejected plaintiffs' equal protection challenge, the court found that the New Jersey Constitution's requirement of a "thorough and efficient system of free public schools" mandated an equal educational opportunity for children. The court held that the state had an obligation (which it had never fulfilled) to spell out the content of the educational opportunity mandated by the constitution, and that this level could not be determined merely by the level of educational offerings that the lowest-spending district in the state provides. The court also viewed the state's constitutional mandate as having an effectiveness or "output" focus, embracing that educational opportunity needed to equip children for roles as citizens and as competitors in the labor

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market. Moreover, once the constitutional obligation is determined, if the state continues to rely on local taxation, districts must be compelled to raise the funds necessary to provide that level of educational opportunity. In this regard, the court doubted that the tax bases in major cities, already overloaded with other demands for local services, would be sufficient to fund a constitutional level of education for children in those cities. Under Robinson, therefore, neither an inadequate tax effort nor an inadequate tax base will justify a failure to provide a "thorough and efficient" education.

The New Jersey legislature, in response to a series of judicial proddings, finally passed and funded an act which in 1976 the court ruled facially constitutional, reserving judgment on its constitutionality as applied until its actual effects could be determined.

The parameters of the state's obligation to provide an equal educational opportunity under the New Jersey Constitution's "thorough and efficient" clause have not been fully explored in Robinson. The elimination of expenditure disparities resulting from deficient local tax bases and tax efforts is certainly required, up to a constitutionally guaranteed level which remains to be determined. The state's obligation may also encompass more than this, for example, it may include compensation for the greater educational tasks which urban districts must perform.

/ Pauley v. Kelly, presently pending in West Virginia, challenges the inadequacy of educational opportunities offered in a poor rural school district under the West Virginia Constitution's requirement of a "thorough and efficient" educational system.

In the State of Washington a trial court recently applied the reasoning of Robinson to prohibit the state from excessive reliance on decisions of local voters to support education. The Seattle School District went to court after its voters failed to approve an annual referendum needed to raise nearly 40% of the District's budget for the 1975-76 school year. The court ruled that the State of Washington could not fulfill its "paramount duty ... to make ample provision for the education of all children" merely by delegating this constitutional responsibility to local voters who have no legal obligation to pass referenda. The state must either directly fund or provide a dependable and regular tax source for funding a basic program of education. As in Robinson, the Washington court ruled that the constitutional obligation had yet to be defined by the state, but found that, under any reasonable standard, Seattle could not provide a basic program of education without referendum funds.

The courts in both New Jersey and Washington have indicated that the state is constitutionally obligated to provide more than minimal educational opportunities. Both courts, however, indicated that once this level is reached, the legislature can permit districts to spend above this level. Presently, we do not know to what extent legislatures will attempt to preserve existing resource inequalities among districts by attempting to define the state's educational obligation at some bare minimum level -- a response certain to produce further litigation.

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One of the corollaries of Robinson is that the state should ensure that the resources in a district are commensurate with the educational tasks and costs in the district. Central city districts with high concentrations of children requiring more intensive educational programs for educationally disadvantaged and handicapped children have a legitimate claim to additional resources. Furthermore, the tax bases of central cities must also fund more costly non-educational services needed for an aging and low-income population, reducing the funds available for education. Plaintiffs in Ohio and New York are asking state courts to hold their educational finance systems unconstitutional because of the failure of the state to address rationally these extra burdens which central cities bear. The Ohio case is being brought by the Cincinnati Board of Education. In New York, the four largest cities have intervened in a fiscal neutrality case to press their claim. /

Another inequity in educational financing, which has not yet been the subject of litigation, is the underfunding of many majority-black school districts in the South. The Lawyers' Committee recently completed a study in South Carolina of this issue and found that resource disparities between majority-white

/ The problems of these central city districts have been exacerbated by declining enrollments which have reduced state support, notwithstanding that it is impossible for these districts to reduce educational costs in proportion to the decline in enrollments or the loss of state aid. For example, the least experienced, lowest-cost teacher must be laid off first, resulting in an increase in the average teacher's salary. The result has been a substantial cutback in educational services at a time when these districts must serve increasing concentrations of low-income and minority students.

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and majority-black districts have grown considerably since desegregation. In many majority-black districts which lost large numbers of white students to private segregation academies, public officials have been unwilling to levy local property taxes adequate to support the public schools at a level equal to that provided in comparable districts serving predominantly-white student bodies. In addition to low tax effort, majority-black districts also tend to be poor in property wealth and personal income. Low effort and low wealth reinforce each other to maximize inequalities between majority-black and majority-white districts.

The South Carolina General Assembly recently passed a new school finance act which, if fully funded, offers an opportunity to redress much of the problem. However, to take advantage of the new act, many underfunded districts will have to increase their local tax efforts - something which is by no means assured. Federal incentives to equalize educational opportunities among districts should require that states eliminate such underfunding related to race.

As I have attempted to show, the substantial inequalities in educational opportunities among school districts result from such separable but overlapping problems as district wealth inequalities, unequal educational tasks, municipal overburden and local voter disinterest in public education. Individual cases generally have not taken on all of these causes of inequality at once. The majority, like Serrano, have focused on district wealth inequalities.

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In my opinion, there need be no conflict between a judicial mandate to eliminate one cause of inequality and rational legislative responses to other causes. For example, I see no conflict between the Serrano doctrine and a rational response to problems such as those affecting central cities. Of course, certain remedies compatible with fiscal neutrality would aid districts subject to higher costs, concentrations of educationally disadvantaged children, municipal overburden or voter disinterest more than others. The remedy most often seen as being in conflict with the interests of central cities is district power equalizing - especially if this method were used to fund a large portion of the total cost of education. / District power equalizing, however, is but one of several methods which can be used to eliminate wealth discrimination. Other methods include full state funding, a high foundation program or a combination system containing a variety of elements, e.g., a foundation element; categorical funding of certain services; limited fiscal consolidation of districts, as in the use of intermediate districts to raise local funds; and a district power equalized add-on above the foundation and categorical amounts. Each of these elements can be made sensitive to differing needs, costs and taxing impediments as well as to wealth inequalities.

/ Under district power equalizing each district would be guaranteed the same amount of local taxable wealth so that all districts imposing the same tax rate would be assured the same amount of funds per pupil. The choice of the tax rate is left up to the district. Since central cities with high non-educational costs are often above average in wealth per pupil and frequently levy a lower tax rate for education than suburban districts, these cities would receive fewer funds under a state aid system in which district power equalizing were the predominant method of allocation - unless corrections for higher costs and needs and municipal overburden were included.

I also see no conflict between the principles of Serrano and the New Jersey and Washington cases requiring a "thorough and efficient" education and a "basic program of education" for all children. Both the New Jersey and Washington courts have indicated that districts may be permitted to spend above these constitutionally mandated levels. Serrano would add that if such local fiscal control is an important interest, the ability to exercise such control should not depend on the fortuity of the amount of a district's taxable wealth. Consequently, the Serrano principle would require equalization for district wealth of local add-ons above the amount needed to provide a "thorough and efficient" or "basic program of education."

The Federal Role in Encouraging Equalization
of Educational Resources Within States

Cases such as Serrano have been essential for producing much of the recent reform of inequitable statewide systems of financing education; but litigation is a slow and costly activity. Ultimately it is the legislature which must respond. And new legislation designed to address one or more of these problems has been enacted in a number of states, both as a result of litigation and without it. However, legislative action has frequently been insufficient to eliminate inequality. For example, Connecticut and Georgia enacted reform legislation but did not fund the new formula. In other states such as Colorado, legislation originally heralded as reform has simply perpetuated substantial inequalities.

Other states have not even taken the first step toward elimination of these inequities inherent in their present finance systems. It is, therefore, my view that federal incentives are needed to stimulate reform by state legislations of the grossly inequitable systems used in many states to allocate educational resources.

The primary focus of any federal role to encourage inter-district equalization should be child rather than taxpayer-centered. In this regard, I believe the most pressing causes of inequalities in educational opportunities among districts within states are (1) inequalities resulting from differences among districts in wealth, (2) the mismatch between educational needs and educational resources, particularly in central city districts and others where there are high concentrations of low-income, low-achieving children, and (3) discrimination against minority children in access to educational resources.

In past years various House and Senate bills have been proposed to promote reform of the property tax, increase the state share of the cost of education and in general to address educational inequities by seeking to eliminate inequities in taxation. In my opinion these would be ineffective ways of producing greater equality of educational opportunity. I base this opinion on the fact that state legislatures, as a general rule, are more sensitive to the interests of taxpayers than of children. This is not to say that they are insensitive to the needs of children or to resource inequalities; however, where the concerns of

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taxpayers and children conflict in school finance reform, taxpayers generally win. For example, cost and expenditure limitations on districts, ostensibly designed to promote equalization between rich and poor districts, have generally resulted in tax relief rather than equalization of educational opportunities.

Tax reform, especially with respect to the property tax, is an important accompaniment to equalization of educational opportunities. However, tax reform, including reform of the administration of the property tax, is by itself not likely to spur substantial equalization of educational resources. In contrast, a focus on equalization of educational resources, in addition to insuring greater equity for children, would also be a substantial spur to tax reform. For example, an equalization plan which continued to rely on the property tax, but which neutralized district wealth differences, would require reform of the administration of the property tax in many states. Equalization of educational resources is also likely to spur greater balance in state-local revenue-raising by requiring states to assume a greater share of educational costs. (In New Jersey the legislature's response to Robinson necessitated the enactment of a state income tax.) A federal role that stimulates states to eliminate the causes of resource inequalities among districts will have a substantial spill-over in tax reform; but a federal role that focuses on tax reform will, by itself, have little impact on equalization of resources.

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There is also an important relationship between Title I of the Elementary and Secondary Education Act and any new federal efforts to promote equalization of educational resources.

Title I focuses the present limited federal educational funds on those educationally disadvantaged children in low-income areas most needing more intensive educational services. It is important that any program supporting equalization of educational opportunities within or among states not draw funds from Title I. States are still a long way from being able to insure that educationally disadvantaged children receive the educational services they need. Furthermore, under current fiscal conditions in many districts in which such children are concentrated, additional unrestricted funds in less than massive amounts would probably be used to meet the financial crisis of the moment rather than to provide the special services such children need.

Title I also contributes to interstate equalization of educational opportunities by providing proportionately more federal aid to states with low personal incomes, and low educational expenditures as well as to central cities with high costs and large concentrations of low-income children. In my view, Title I is essential for insuring that children most needing intensive educational services receive them. However, at the present funding level, Title I cannot serve every child eligible for Title I services, due to the fact that the Act is not, and has never been, fully funded.

Under Section 301 of H.R. 1138, funds could not be authorized to be expended under the Act until Title I is funded at \$3 billion, an amount that is less than needed to fully fund the current Title I formula. I support the concept of a threshold level of Title I funding for the operation of any new federal effort to promote equalization of educational resources, but urge this threshold be established at the level required to fully fund Title I.

**SUMMARY OF
STATE-WIDE SCHOOL
FINANCE CASES
SINCE 1973**



February, 1977
School Finance Project
**LAWYERS' COMMITTEE FOR
CIVIL RIGHTS UNDER LAW**

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INTRODUCTION

This summary, prepared by the School Finance Project of the Lawyers' Committee, provides an overview of developments in school finance litigation since the United States Supreme Court's historic, and lamentable, ruling in *San Antonio Independent School District v. Rodriguez*, 411 U.S. 1 (1973), that wealth-based discrimination in educational expenditures does not violate the equal protection clause of the 14th Amendment to the federal constitution. The failure of the Supreme Court to rule the Texas school finance system unconstitutional shifted school finance litigation to the state courts.

The state cases are widely diverse in concept and scope depending upon the state constitutional language, the mechanics of the school finance statute, and the factual setting. A number of cases, following the *Rodriguez* model, are broad-based attacks upon the inequality of educational opportunity resulting from statewide school finance systems which make educational funding a function of district property wealth. *Serrano v. Priest* (Cal.), *Horton v. Meskill* (Conn.), *Thomas v. Stewart* (Georgia), *Olsen v. Oregon*, and *Northshore School District v. Kinnear* (Wash.). In others, the primary focus is on the state's failure to equalize for the effects of municipal overburden, the higher costs of urban education, or the greater concentrations of disadvantaged children in urban schools. *Board of Education, Levittown v. Nyquist* (N.Y.). Still others challenge the delegation of the state's constitutional obligation to local voters to provide by referendum the funds necessary for adequate or equal educational opportunities. *Board of Education of Cincinnati v. Essex* (Ohio), *Seattle School District No. 1 v. State of Washington*.

This is the fourth summary of school finance cases which the Project has prepared. Earlier summaries were published in January 1972, May 1974, and January 1976. All of the cases described in the January 1976 summary are included here. Cases decided prior to *Rodriguez*, and cases pending in federal court when *Rodriguez* was decided, are described in the May 1974 summary, which is out of print, but which the School Finance Project will, on request, copy at our cost.

Additional copies of this February 1977 summary are available for \$1.00 per copy.

School Finance Reform Project
Lawyers' Committee for Civil
Rights Under Law
David C. Long
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PENDING CASES

ALASKA

Tobeluk v. Lind, No. 72-2450 (Alaska Superior Court, 3rd Judicial District), *On Remand From Hootch v. Alaska State-Operated School System*, 536 P.2d 793 (Alaska Supreme Court, 1975).

Parties. Plaintiffs are Alaska native (Eskimo, Indian, and Aleut) children of secondary school age. Because the state does not maintain any secondary school facilities in their communities, in order to attend grades 9-12 the plaintiffs must leave their homes and families for nine months each year in order to participate in boarding programs. Defendants are the state commissioner of education and members of the state board of education. The plaintiffs represent a class of 2,663 Alaskan native children of secondary school age who reside in some 126 communities which do not offer secondary schooling.

Description. In 1975, the Alaska Supreme Court rejected claims by Eskimo, Indian, and Aleut school children that the lack of secondary schools in primarily non-white communities, forcing them to leave home for nine months of the year to attend boarding schools, violated constitutional and statutory provisions guaranteeing the right to a public education. *Hootch v. Alaska State-Operated School System*, 536 P.2d 793 (Alaska 1975). The case was remanded to the trial court for consideration of additional claims made by the plaintiffs that the lack of availability of secondary schools for their class was discrimination based on race, prohibited by the equal protection clauses of the state and federal constitutions.

An agreed statement of facts submitted in the case described the historical development of a system of segregated schools in Alaska which was officially sanctioned by the United States Congress. In recent times, native Alaskan youths who wish to attend secondary schools have the option of leaving home to attend boarding schools within Alaska or in other states or participating in correspondence courses. The correspondence study program proved to be ineffective for most children enrolled in the program. This was primarily due to the fact that successful completion of correspondence courses is largely dependent upon parental interest and supervision, and most village parents have not had sufficient formal education to supervise

such courses effectively. Deficiencies of the boarding school program included "accelerated dropout rates, psychological and social problems including disruption of family life and loss of sense of identity, and failure to live up to educational potential."

Status. On September 13, 1976, the parties to this litigation entered into a consent decree settling the lawsuit. Under the terms of the agreement, each of 126 communities is to be afforded the opportunity to have its own secondary school program. The governing body of the appropriate school district must notify the residents of the community of their entitlement to a public school by November 1, 1976. By June 1, 1977, surveys of secondary children not presently in school must be completed. Communities which have suitable facilities in which to conduct a local secondary school must establish one as soon as practicable, with classes commencing no later than Fall 1977. Communities in which existing structures may be temporarily rendered suitable at a cost not exceeding \$10,000 must undertake renovation as soon as practicable. Provision is also made for the construction of new facilities in communities where no suitable facilities presently exist. Construction of all such facilities must be completed by Fall 1980. In addition, the Department of Education agrees to use its best efforts to secure legislative approval of issuance of general obligation bonds for school construction costs in the amount of \$20,570,000 multiplied by an inflationary factor. Certain of the 126 communities are designated as major construction sites in which comprehensive secondary educational facilities will be built using the rural secondary school construction funds provided by the legislature.

The consent decree also provides for monitoring of progress by the plaintiffs and by periodic reports to the court. The court retains jurisdiction of the action until such time as the construction provided for by the agreement has been substantially completed at each of the sites and other provisions of the decree have been substantially fulfilled. The court's jurisdiction will terminate in October 1980 assuming the conditions of the agreement have been met.

ARKANSAS

Alma School District No. 30 v. DuPree, No. 77-406 (Chancery Court of Pulaski County, Arkansas)

Parties. Plaintiffs are school districts which allegedly have been discriminated against in the distribution of Minimum Foundation Program Aid funds; residents, taxpayers, and patrons of said schools; and school children and their parents. Defendants are the chairman

of the State Board of Education, members of the State Board of Education, the State Treasurer, State Auditor, and Chief Fiscal Officer.

Description. This is a suit for declaratory and injunctive relief to hold Arkansas' Minimum Foundation Program unconstitutional under the state and federal constitutions. The suit attacks the hold harmless provision of the Act which allegedly preserves the inequities that existed in distribution of state funds prior to the enactment of the statute in 1951; flat grants for increases in teacher salaries; guarantees of aid levels to encourage consolidations; the failure to meet the problem of shifting populations; the legislative allocation of funds for vocational-technical education training programs that only benefits school districts which already have such programs in effect; the allocation of funds for special education on a per teacher unit basis rather than on a per student in ADA basis. The result, plaintiffs allege, is a system which denies them substantially equal educational resources and opportunities, perpetuates inequities carried forward over the years, requires them to levy higher taxes on their property to provide an education which is substantially inferior to other districts in the state, and which makes the quality of education a function of the geographical location of the particular school district. They claim that such a system violates Article 14 §§ 1,2,3, of the Arkansas Constitution and the equal protection clause of the 14th Amendment to the federal Constitution.

Status. The complaint was filed on January 28, 1977.

CALIFORNIA

Serrano v. Priest, 5 Cal. 3d 584, 96 Cal. Rptr. 501, 487 P.2d 1241 (1971), *subsequent opinion*, 45 U.S.L.W. 2340 (Dec. 30, 1976).

This is the landmark case in which the California Supreme Court held that the state school finance system was unconstitutional under the state's equal protection clause because it made the quality of education a function of local school districts' taxable wealth.

Parties. Plaintiffs are school children and their tax paying parents from a number of Los Angeles county school districts. Defendants are the Treasurer, Tax Collector and Superintendent of Public Schools for Los Angeles County and the Treasurer, Comptroller and Superintendent of Public Instruction for the State of California. Certain property wealthy school districts have intervened as additional defendants.

Description. The complaint filed in *Serrano* became the model for most other suits filed after the California Supreme Court decision in this case. The suit challenged discrimination against both children and taxpayers in poor districts. Plaintiffs claimed that there were substantial disparities among school districts in California in tax base per pupil, that these disparities resulted in substantial disparities among districts in dollar amounts spent per pupil for public education, and that the educational opportunities available to children in tax poor districts were substantially inferior to those available for children of wealthier districts.

Status. This suit was filed on August 23, 1968. The complaint was dismissed by the California Superior Court which was affirmed by the California Court of Appeals. On August 30, 1971, the California Supreme Court reversed the decision dismissing the complaint, and remanded the case to the trial court for further proceedings. The California Supreme Court upheld the complaint primarily on the basis of the claim that the education finance system in California makes the quality of education for school age children in California a function of the wealth of a child's parents and neighbors as measured by the tax base of the school district in which the child resides. However, the court made clear that the plaintiffs had to prove their allegations at trial in order for the California school finance system to be held unconstitutional.

On April 10, 1974, after a five month trial, the trial court declared the California system of school finance unconstitutional as a violation of the equal protection provisions in the State Constitution. In a lengthy opinion, the trial court found that the current financing scheme in California, notwithstanding the significant increase in state aid enacted in 1972, still made the quality of education a function of the local wealth of school districts. The trial court held that the plaintiffs "established the truth of the allegations in their complaint," and it pointed out the following objectional features in the current financing system:

The basic aid payment of \$125 per pupil to high wealth school districts;

The right of voters of each school district to vote tax overrides and raise unlimited revenues at their discretion;

Wealth-related disparities of greater than \$100 between school districts in per pupil expenditures, apart from the categorical aids special needs programs, and wealth-related variations in tax rates between school districts. (These variations are to be reduced within six years to insignificant differences.)

The court found that as a result of these features, great per pupil expenditure disparities are created between districts because high wealth districts can reach the foundation-program levels with less tax effort than low-wealth districts, and above the foundation-program levels, local property wealth is the primary determinant of the amount of revenue generated for a given tax rate, thus denying low-wealth school districts an equal opportunity to exceed foundation-program levels.

The county and wealthy district defendants appealed the trial court's decision to the California Supreme Court. The state officials who are defendants did not appeal, and two state defendants, Superintendent of Public Instruction Wilson Riles and State Treasurer Jessie Unruh filed briefs which support plaintiffs.

On December 30, 1976, the California Supreme Court affirmed the trial court's finding that the California school finance system was unconstitutional under the equal protection provisions of the state constitution - unaided by the 14th Amendment. 45 U.S.L.W. 2340.

CONNECTICUT

Horton v. Meskill, 31 Conn. Sup. 377, 332 A.2d 813 (Hartford County Superior Court 1974)

Parties. The plaintiffs are school age children from the town of Canton. The defendants are state executive officials responsible for the distribution of state funds for expenditure in public schools; the Governor, members of the State Board of Education, State Treasurer and State Comptroller.

Description. Plaintiffs claimed that the Connecticut school finance system violated both the state and federal constitution's equal protection clauses in that the state had been derelict in its function and duty as specified in Section 1 of Article 8 of the Connecticut Constitution: "There shall always be free elementary and secondary schools in the State. The general assembly shall implement this principle by appropriate legislation." A state commission report issued in February 1974 estimated that sources of school revenue in the state during the 1973-74 school years were as follows: 73.8% local taxes; 23.1% state aid; and 3.1% federal aid. Since local property taxes are the principal source of revenue, the property valuations for school districts range from \$20,000 to \$170,000 and state aid is distributed as a flat grant, less wealthy districts are unable to provide the same or similar educational services that other wealthier districts can.

Status. On December 26, 1974, the Superior Court of Hartford County issued a memorandum decision in substantial agreement with the plaintiffs' contentions. The Court found that "although the duty of educating children has been delegated by statute to municipalities, both the common law of this state and the Connecticut Constitution provide that the duty of educating Connecticut children is upon the state, as a whole, and not upon the municipalities." The court held that a legislative scheme for financing education which depended primarily on local property wealth was not "appropriate legislation" under Article VIII, Section 1. Alternatively, the court held that under the Connecticut Constitution, education is a fundamental interest demanding strict scrutiny under the state's equal protection clause. The court did not grant injunctive relief but retained jurisdiction over the case. The state has appealed, and the case was argued in the Connecticut Supreme Court in December 1976.

FLORIDA

District School Board of Bay County Florida v. Department of Education, No. 73-1747, Leon County Circuit Court

Parties. The plaintiffs are 44 school districts bringing suit against various officials of the state department of education.

Description. This case arises out of the inclusion of a cost of living differential in the state program for providing equalization aid to school districts. The plaintiff school districts claim that the factors used in determining the cost of living differential by counties are inadequate and violate the uniformity provision of the State Constitution. It is important to note that this suit does not attack the concept of a cost of living differential. This cost of living differential is now in its third year of use in Florida. This suit attacks only the factors that were applied the first year and seeks to be indemnified for lost revenues by the State or by other school districts that benefited by the cost differential.

Status. Subsequent to the filing of this suit, the legislature provided a different set of factors to be used in the equation. The state filed a motion to dismiss for mootness. The trial court refused to dismiss the complaint and the state took an interlocutory appeal to the Florida Supreme Court. That court declined jurisdiction over the interlocutory appeal. Subsequently, the Circuit Court of Appeals also declined jurisdiction. This case is now pending but no trial date has been set.

GEORGIA

Thomas v. Stewart, Docket No. 8275 (Polk County Superior Court)

Parties. The plaintiffs include (1) members of the Whitfield County Board of Education suing in their official capacities and in their individual capacities as representatives of a class or property owners and (2) children who attend the public schools in the county. The defendants are the members of the Georgia State Board of Education, the State Superintendent of Schools and the Attorney General.

Description. As originally drawn, plaintiffs' complaint alleged that the Georgia statutory scheme for financing public education (dependent largely on a Minimum Foundation Program), failed to comply with Article VIII, Section 1, Paragraph 1 of the State Constitution, which imposed a "primary obligation" on government to provide an adequate education for all citizens. The complaint also rested on state constitutional provisions requiring uniform taxation among the same class of subjects. Subsequent to the filing of the complaint, Georgia enacted new legislation designed to remove the disparities between school districts caused by widely varying property values. Although the new legislation made provision for district power equalization, that provision is presently inoperative. In September 1975, plaintiffs amended their complaint to allege that the new legislation, absent the operation of the district power equalization provision, has in effect carried forward the same inequities that were built into the Minimum Foundation Plan it replaced.

Status. Original complaint filed December 19, 1974; answer filed January 27, 1975; plaintiffs' first amended complaint filed September 1975, Preparation for trial is underway.

KANSAS

Unified School District No. 229 v. State of Kansas No. 132851 (District Court of Shawnee County, Kansas)

Parties. Plaintiffs are five unified school districts, and individual members of a unified school district, as property owners and taxpayers. Defendants are the Attorney General of Kansas, the Commissioner of Education, the State Treasurer, and members of the State Board of Education.

Description. On December 20, 1976, the plaintiffs filed a declaratory judgment action challenging several provisions of the Kansas School District Equalization Act as violating Article VI of the State

Constitution and Sections 1 and 2 of the Kansas Bill of Rights. Among the features of the Act alleged to be unconstitutional are (1) the use of taxable income as a factor in apportioning general state aid to districts; (2) an income rebate provision because it excludes income earned in another state from a general 20% rebate of Kansas income tax liability of school district residents; (3) categorical aids for pupil transportation; (4) flat grants for special education services; (5) the lack of any state aid for vocational programs; (6) the lack of state aid for social security; (7) the deduction of impact aid from general state aid entitlements; (8) and statutory limitations on district budgeting. Plaintiffs contend that the effect of these provisions is to create a school finance system which is "wealth related" and therefore not "fiscally neutral" as required by the relevant provisions of the State Constitution. Plaintiffs seek a declaratory judgment that the statutory provisions for distribution of state education aid are unconstitutional and an order retaining jurisdiction while the defendants take steps to restructure the financial scheme so as to assure equal educational opportunity among the unified school districts of the state.

Status. The complaint was filed on December 20, 1976. The defendants filed their answer on December 29, 1976.

LOUISIANA

Horne and the Jefferson Parish School Board v. Louisiana State Board of Education, et al. No. 197-818 (Nineteenth Judicial District Court, Parish of East Baton Rouge, La.).

Parties. Plaintiff Horne is a citizen and taxpayer in Jefferson Parish who has minor children attending school in the Jefferson Parish school system. The Jefferson Parish School Board is a political subdivision of the State of Louisiana responsible for maintaining a free public school system under state law. Defendants are the Louisiana State Board of Elementary and Secondary Education and its individual members, the State Treasurer, State Comptroller, and the Louisiana School Board Association.

Description. Under Louisiana's Minimum Foundation Program, the cost of operation of each parish and city school system is first calculated. In the past, the amount of state aid was calculated by subtracting from this figure the net proceeds collected locally by imposition of a 5-mill property tax required by Article VIII § 13 (c)(1) of the state constitution. Beginning in FY 1976-77, based on a property tax ratio study, the state began to use an equalized assessment basis to determine the amount of the local contribution rather than the actual amount collected by the 5-mill tax. Plaintiffs contend that the prop-

erty tax ratio study was defective, the formula for distribution was necessarily arbitrary and capricious, and the state MFP funds were not "equitably distributed" as required by Article I § 3 and Article VIII § 13B of the 1974 Louisiana constitution. The result, plaintiffs allege, is a severe monetary loss to 44 local school districts. They urge a return to the old system whereby the MFP was based upon actual proceeds collected under the 5-mill tax. Alternatively, they argue that any shortage of funds appropriated by the legislature should be borne equally by all school systems on a pro rata basis irrespective of the amount of funds realized by a local system from the 5-mill tax.

Status. Plaintiffs' complaint was filed on December 3, 1976. Plaintiffs have sought a preliminary injunction to prevent the state from distributing MFP funds under the equalized assessment basis during the pendency of the suit.

MAINE

Boothbay v. Longley, Docket No. 75-918 (Kennebec Superior Court)

Parties. Plaintiffs are coastal towns, elected officials, school-children, residents, taxpayers and property owners. Defendants are the Governor of Maine, Commissioner of Education and Cultural Services, State Board of Education, State Tax Assessor, Treasurer, Attorney General, and the Director of the State Bureau of the Budget.

Description. The suit challenges the School Finance Act of 1975 which imposes a statewide property tax to finance public education as violating the United States and Maine constitutions. The law requires that all administrative units tax property at a uniform rate and pay the revenues into the state treasury. The sums are then redistributed to the administrative units in a manner designed to equalize per pupil expenditures. A number of coastal towns voted not to raise revenues required by the law and filed suit for declaratory and injunctive relief.

Status. Complaint filed July 18, 1975. Answer filed July 22, 1975. A temporary restraining order was granted to the state July 23, 1975 requiring that the plaintiff towns not interfere with the collection of the Uniform School Tax as required by law and directing the plaintiffs to pay their respective shares of the taxes. On August 6, 1975, the state moved to cite the plaintiffs for contempt for noncompliance. Under this threat, the plaintiffs came into compliance.

Subsequently, the Maine legislature enacted amendments to the School Finance Act which, among other things, lifted all ceilings upon actual expenditure for educational purposes. Moreover, a petition

calling for repeal of the statewide property tax has been successfully circulated. Under the Maine Constitution, if the state legislature fails to adopt the proposal, the issue goes to statewide referendum.

An extensive record has been developed before a referee which will provide a factual base should the appeal be considered by the Supreme Judicial Court.

MISSOURI

Benson v. Missouri, Docket No. 27911 (Circuit Court Cole County)

Parties. The plaintiffs are the members of the Board of Education of the City of St. Louis suing in their official capacities and individually as taxpayers and as the parents of children attending the elementary and secondary schools. The defendants are the State of Missouri, the Attorney General, the Missouri State Board of Education and the Commissioner of Education.

Description. The complaint seeks declaratory and injunctive relief against the operation of the Missouri Foundation Plan for financing education. The complaint also alleges that the state program fails to take into consideration "municipal overburden" in allocating funds and that by basing the amount of state aid on Average Daily Attendance it discriminates against urban schools which have a higher rate of absenteeism. Plaintiffs' claims are based on various provisions of the Missouri Constitution including Article IX, Section 1(a) requiring the General Assembly to establish and maintain free public schools for the gratuitous instruction of all persons in the State under 21 years of age. Article IX, Section 1(a) recognizes that "A general diffusion of knowledge and intelligence (is) essential to the rights and liberties of the people."

Status. Complaint filed September 1975. Defendants, on October 3, 1975, filed motions to drop the State of Missouri as a party defendant, for a more definite statement, and to strike the portions of plaintiffs' prayer for relief requesting the reallocation of funds. This motion has not been ruled on. The case is dormant because of the possibility that reform legislation will be enacted.

NEW JERSEY

Robinson v. Cahill, 62 N.J. 473, 303 A.2d 273 (1973)

Parties. Plaintiffs include the Mayors, members of the City Councils and Boards of Education for five property poor New Jersey cities. Also included as plaintiffs are a student and a taxpayer from a

New Jersey city school district. The defendants are the Governor, Treasurer, Attorney General, Commissioner of Education, and both houses of the State Legislature, and their leaders.

Description. Plaintiffs charged in a sixteen count complaint that the New Jersey system of public school finance was unconstitutional for the following reasons:

It makes the quality of education dependent on the wealth of each district and not the state;

It places an unequal burden on property tax owners who live in low property tax value districts;

The public officials in these poor districts are unable to provide equal educational opportunities;

The minimum educational needs of the students in these districts are not being met;

The delegation to these districts to run schools was done without adequate standards;

The schools are not being maintained thoroughly and efficiently as required by the State Constitution;

School district boundaries deprive plaintiffs of the power to spend what they want on education; and finally,

The current system promotes racial discrimination.

Plaintiffs asked the court, *inter alia*, to declare the current educational finance scheme unconstitutional and to order the defendants to restructure the scheme in a manner not violative of the United States and New Jersey constitutions. Further, plaintiffs asked the court to order the defendants to change the boundary lines of the districts in a way that would equalize the amount of taxbase per student and that would eliminate the complaint of discrimination.

Finally, the plaintiffs asked the court to declare the state's real property tax unconstitutional to the extent that it is used for public school support and to direct the defendant to enact laws equalizing those taxes on a state-wide basis.

Status. The suit was filed in the Superior Court of Hudson County, New Jersey, in early 1970. A trial was held in late 1971, and on January 19, 1972, the court held that the New Jersey school

finance system violated the education clause of the State Constitution, the provision requiring uniformity of taxation, and the equal protection provisions of the State and Federal Constitutions (118 N.J. Super. 223, 287 A.2d 187 (1972)).

On appeal to the New Jersey Supreme Court, the decision was affirmed on the basis that New Jersey school finance system violates the state's constitutional mandate to provide a "thorough and efficient" education (62 N.J. 473, 303 A.2d 273 (1973)). The court found that the state had failed to define in some discernible way the state's obligation to provide a thorough and efficient education and to insure that all children had an equal opportunity to obtain such an education. The court specified in general terms the standard for determining whether the Constitutional obligation has been met: "The Constitution's guarantee must be understood to embrace that educational opportunity which is needed in the contemporary setting to equip a child for his role as a citizen and as a competitor in the labor market" (303 A.2d at 273).

On June 19, 1973, in a supplemental opinion, the state was given until December 31, 1974 to establish reforms (63 N.J. 196, 306 A.2d 65). When the deadline passed without affirmative legislative action, the plaintiffs returned to the New Jersey Supreme Court and requested equitable relief against the State Legislature. By order dated January 23, 1975, the court declined to order coercive relief but scheduled oral arguments on the question of its power to do so (67 N.J. 35, 335 A.2d 6). On May 23, 1975, having heard arguments, the court ordered provisional relief for the 1976-77 school year (67 N.J. 333 (1975), 339 A.2d 193). Under the court's order, in the absence of legislative initiative by October 1975, Minimum Support Aid and Save-Harmless Funds would be enjoined and those funds disbursed in accordance with the incentive equalization formula of the 1970 Act.

In the face of the Supreme Court's order, the Legislature passed and the Governor signed into law (September 29, 1975) S.1516, The Public School Education Act of 1975. Plaintiffs filed objections to the plan with the court on the grounds that: (1) it fails to define the term "thorough and efficient" in a comprehensible manner as required by the court; (2) the legislature has not funded the act; and (3) assuming the act is funded, it would operate to preserve the inequalities between wealthy suburban school districts and disadvantaged urban districts.

On January 30, 1976 a divided New Jersey Supreme Court held S.1516 constitutional on its face, if fully funded (69 N.J. 449, 355 A.2d 129). The court left open the question of whether the Act, in actual operation, was constitutional until it had the benefit of actual experience.

Subsequent to the January 30, 1976 opinion, the governor suggested to the court that the legislature would not fully fund S.1516 for the next school year. As a result the New Jersey Supreme Court in February 1976 issued an order to show cause why certain remedies should not be ordered in the event of legislative failure to assure full funding. After a further hearing the supreme court on May 13, 1976 enjoined all state and local officials "from expending any funds [with certain exceptions] for the support of any free public schools" effective July 1, unless by that date the legislature acted to fully fund S.1516 for school year 1976-77 (70 N.J. 155, 358 A.2d 457).

As of July 1st, the legislature had failed to assure full funding thus triggering the court's injunction. Less than two weeks thereafter, with the schools closed, the legislature enacted an income tax, assuring full funding of S.1516, and the injunction was lifted.

NEW YORK

Board of Education, Levittown v. Nyquist, Index No. 8208/74 (Nassau County Supreme Court)

Parties. The original plaintiffs are boards of education and children from low property wealth districts from Long Island and Upstate New York. Subsequent to the filing of the complaint, the Boards of Education of three large cities, Rochester, New York City, and Buffalo, the City of New York, a New York City parents organization, and children from these cities intervened as plaintiffs. The defendants are the Commissioner of Education, the University of the State of New York, the Comptroller and the Commissioner of Taxation and Finance.

Description. The complaint of the original plaintiffs alleges that the New York State school finance system makes the allocation of educational resources a function of local real property wealth without any relationship to legitimate educational considerations in violation of the state constitution's equal protection and education provisions. The education article specifies that "the legislature shall provide for the maintenance and support of a system of free common schools, wherein all the children of the state may be educated."

The intervenors complaint of the big cities alleges that the state education aid formula (a) measures local incapacity arbitrarily and inadequately resulting in large urban school districts, rendered poorest in school finance resources because of greater municipal services burdens and school costs, being treated as wealthy and receiving less state aid than other districts with greater resources; and (b) in undertaking to grant special assistance to school districts for students

requiring compensatory educational services, arbitrarily and inequitably grants less and inadequate aid per student in the largest urban districts having the highest concentrations of such students and the greatest need to provide compensatory school services.

Status. Original complaint and intervenors complaint filed in 1974. Answer filed October 25, 1974. On April 9, 1976, the court denied defendants' motion for summary judgment on the ground that there were substantial contested issues of fact and therefore summary resolution of constitutional issues was inappropriate. The court also found that all plaintiffs had standing to bring the action and that the issue of the constitutionality of the state system of school finance presented a justiciable controversy. The court granted defendants' motion insofar as it challenged the suit being brought as a class action. On this point the court was of the opinion that class relief would be inappropriate and that those similarly situated would be entitled to comparable relief under principles of *stare decisis*.

A lengthy trial was completed in January 1977. The parties have until June 1977 to complete post-trial briefs.

OHIO

Board of Education of the City School District of the City of Cincinnati v. Essex, No. A 7602725 (Hamilton County Court of Common Pleas)

Parties. The plaintiffs are the Cincinnati Board of Education, board members, the district's Superintendent and Clerk-Treasurer and parents and property owners and their children who attend the Cincinnati public schools. The suit is brought as a class action on behalf of all officials and individuals similarly interested. The defendants are the State Superintendent of Public Instruction, the State Board of Education, the Department of Education and the Controlling Board.

Description. Plaintiffs allege that the existing statutory system of public school finance places upon each school district in Ohio the burden of raising an excessive portion of the current operating funds required to meet constitutional mandates and statutory duties through the locally levied property tax. The funds from the property tax and School Foundation Program are inadequate for the Cincinnati School District and other districts to comply with constitutional and statutory requirements. The system makes the funds available for the education of the children in each school district dependent, to a predominant extent, upon the willingness of the voters in that district to approve school tax operating levies, rather than upon the cost of

providing a thorough and efficient education to the students in such school districts or the availability of total funds from all sources of revenue within the constitutional reach of the General Assembly. In districts such as Cincinnati, experience demonstrates that the voters will not approve a property tax levy for the schools, resulting in unequal educational opportunities for the children in those districts. In addition, the state aid system, which uses taxable property value as the sole measure of fiscal capacity, discriminates against children in Cincinnati and similarly situated districts because it fails to take into account (i) the greater non-educational governmental expenditures and tax burden borne by the property tax base in such school districts, (ii) the higher costs of providing a thorough and efficient education in such districts and (iii) the heavier concentration of disadvantaged pupils in such school districts. Plaintiffs also challenge the fiscal penalty, in the form of reduced state aid, imposed by the state for a district's inability to satisfy state mandated educational standards. Plaintiffs allege that these violate the following provisions of the Ohio Constitution: Article VI, Section 2 which requires the General Assembly to "make such provision, by taxation, or otherwise, as will secure a thorough and efficient system of common schools throughout the state. . ."; Article VI, Section 3 which requires that "Provision shall be made by law for the organization, administration and control of the public school system of the state supported by public funds. . ."; and the equal protection provisions of Article I, Section 2 and Article II, Section 26.

Status. Plaintiffs' complaint was filed on April 5, 1976. The trial court denied defendants' motion to dismiss and the trial, which is anticipated to last for several months, began December 6, 1976.

WASHINGTON

Seattle School District No. 1 of King County, Washington v. State of Washington No. 53950 (Thurston County Superior Court, Jan. 14, 1977).

Parties. Plaintiffs are the Seattle School District No. 1, located in King County, Washington, and a number of individual students attending said school. The defendants are the State of Washington, the Washington State Superintendent of Public Instruction, the state treasurer, and members of the state board of education.

Description. Plaintiffs challenge Washington's foundation program for financing public education as applied to them based upon Article IX § 1 of the state constitution which provides: "It is the paramount duty of the state to make ample provision for the education of all children residing within its borders. . . ." They argue that 40% of

Seattle's educational budget is dependent upon passage of an annual referendum. In 1975, the voters failed to pass a referendum, precipitating an educational crisis. Seattle challenges the extent to which the finance system subjects the educational program to the whims of local voters who have shown themselves unwilling to support the basic educational program. They contend that without funds provided by referendum, the Seattle schools cannot meet state-imposed educational requirements. The theoretical base for the suit is found in the concurring and dissenting opinions in *Northshore School District v. Kinnear*, 84 Wash.2d 685, 530 P.2d 178 (1974), in which the plurality upheld Washington's school finance law against a *Serrano*-type challenge.

Status. On January 14, 1977, the Thurston County Superior Court, after a trial lasting two months, entered an 84-page opinion accepting plaintiffs' contentions and holding the foundation program unconstitutional as applied to Seattle. The court held (1) that the level of funding provided by the state for the 1975-76 school year was insufficient to comply with the paramount duty of the state under Article IX § 1 to fund the basic program of education required by state law; (2) the legislature had not expressly defined "basic education" or determined the substantive content of a basic program of education to which the children of the state are entitled; and (3) the legislature had failed to provide a method for the fully sufficient funding of such education without reliance on special excess levies. The court directed the legislature to adopt a funding system that would remove any reliance on excess levies by July 1, 1979, and retained jurisdiction so that it could order appropriate relief if the legislature failed to act within that period.

WEST VIRGINIA

Pauley v. Kelly Docket No. 75-1268 (Superior Court, Kanawha County)

Parties. Plaintiffs are children attending the public schools in Lincoln County, West Virginia. Defendants are the West Virginia State Board of Education, Superintendent of Schools, and the Treasurer of the State of West Virginia.

Description. This is an action for declaratory and injunctive relief to invalidate West Virginia's education finance statute under provisions of the state constitution. Plaintiffs contend that the statutory scheme fails to produce a "thorough and efficient" education mandated by Article XII, Section 1, and that it deprives the plaintiffs of equal protection of the laws.

Status. Plaintiffs' complaint was filed February 10, 1975. On May 1, 1975, the state filed a motion to dismiss. In September 1976 the plaintiffs filed a motion for summary judgment, which was heard by the circuit court on November 9, 1976. On that date the court denied the state's motion to dismiss and took plaintiffs' motion for summary judgment under advisement.

TERMINATED

ARIZONA

Hollins v. Shofstall, 110 Ariz. 88, 515 P.2d 590 (1973), *Serrano*-type suit.

Parties. Plaintiffs were public school students and their taxpaying parents from Maricopa County, Arizona. Defendants were the Superintendent of the Arizona Department of Education, the Arizona Board of Education, the Treasurer and Attorney General of Arizona, and the Superintendent of the Maricopa Public Schools.

Status. Plaintiffs filed a *Serrano*-type complaint on October 12, 1971 in the Arizona Superior Court for Maricopa County. Nine months later, on June 1, 1972, the trial court granted a summary judgment for the taxpayer plaintiffs on the grounds that the system of school financing unconstitutionally discriminated against them under the state and federal equal protection clauses. As for the student plaintiffs, the trial court found that they had suffered no unconstitutional injury or inequality in their right to an education and therefore denied their motion for summary judgment. It did, however, order that its declaratory judgment with respect to the taxpayers' claim would not take effect until and after the close of the thirty-first (31st) legislature in 1974. Subsequently, the Arizona legislature repealed its entire school financing statutory framework effective July 1, 1974 (laws 1973, Chapter 182, §13). On November 2, 1973, the Arizona Supreme Court reversed the trial court's order and remanded the case for further proceedings. In its decision, the State Supreme Court did hold that the Arizona "Constitution does establish education as a fundamental right of pupils between the ages 6 and 21 years." Notwithstanding the fundamentality of education, the court held that the applicable standard to judge the constitutionality of the Arizona system of school finance was whether it had a "rational and reasonable basis. . . which meets the educational mandates of the [Arizona] constitution. . . ." It held that the Arizona school finance system did meet that standard and despite the fact that taxpayers in some municipalities had a greater tax burden than taxpayers of others, with respect to the constitutional claims of the taxpayers, the court could find "no magic in the fact that the school district taxes herein complained of are greater in some districts than others." [515 P.2d 590 (1973)].

IDAHO

Thompson v. Engelking, 96 Ida. 793, 537 P.2d 635 (Idaho Supreme Court, 1975)

Parties. Plaintiffs were school children and their taxpaying parents who reside in the Pocatello School District No. 25. Defendants were the State Superintendent of Public Instruction, the members of the State Board of Education, the State Auditor and the State Treasurer. Additionally, several local elected officials were defendants including the Auditor, Treasurer and Assessor for several counties throughout the State.

Description. This was a *Serrano*-type suit based upon the equal protection and education provisions of the Idaho constitution. This latter constitutional provision requires the state to "establish and maintain a general, uniform and thorough system of public, free, common schools for all the children in the state. . . ."

Status. During the summer of 1973 the case was tried based upon stipulated facts and procedures. On November 16, 1973, the trial court issued a written opinion declaring Idaho's school financing system to be unconstitutional in that it "does not provide for a uniform system of public schools as required by [the state constitution]."

On appeal, the Idaho Supreme Court in a 3-2 decision rejected a claim that its education finance law violates Article 9, Section 1 of its Constitution which requires the state to provide a "uniform system" of public schools. In upholding the statute, the Court reversed the judgment of the trial court which had held the statute unconstitutional on this ground. The Court also refused to recognize education as a fundamental interest and turned back an equal protection attack as well. The two dissenting justices considered education a "fundamental interest" because of its special place in the Idaho constitution and would have found the wealth related inequalities among districts in violation of the state equal protection provision.

ILLINOIS

Blase v. State of Illinois, 55 Ill.2d 94, 302 N.E.2d 46 (1973); Action to require the State of Illinois to provide not less than 50% of the funds needed to operate and maintain public elementary and secondary schools.

Parties. Plaintiff in the first of these consolidated actions (*Blase v. Martwick*) was a taxpayer and parent of public school children on behalf of the class of all those similarly situated. Defendants were the

State of Illinois, the State Superintendent of Public Instruction, the school district where the plaintiff and daughter reside and the Cook County Superintendent of Schools.

Plaintiff in the second action (*Sbarboro v. State of Illinois*) was a taxpayer and resident of Chicago. Defendants were the State of Illinois and State Superintendent of Public Instruction.

Description. Plaintiffs contended that Section 1 of Article X of the Illinois constitution which reads: "The State has the primary responsibility for financing the system of public education" required the state to provide not less than 50% of the funds needed to operate and maintain the state's public elementary and secondary schools. They asked the court to declare invalid the state's school finance system since it did not provide the requisite 50% of the costs of education throughout the state. In a brief *amicus curiae* in support of the plaintiffs the Chicago Region, Parent Teachers Association asked the court to decide the case without limiting the power of the judiciary to deal with other constitutional claims, not then before it, respecting the provision of public education (i.e., potential cases dealing with the requirement that the state provide "an efficient system of high quality public educational institutions and services" (Art. X § 1)).

Status. The *Blase* case was filed on September 1, 1971 and the *Sbarboro* case on October 5, 1971. The Superintendent of Cook County, originally a defendant in the *Blase* case, brought suit in January 1972 in the Circuit Court of Cook County (*Martwick v. Illinois*, No. 72-CH-297) on basically the same theory as the plaintiffs in *Blase* and *Sbarboro*. The *Martwick* case was removed to the U.S. District Court in October 1972 (N.D. Ill. No. 72-C-436) and was ultimately dismissed voluntarily by the plaintiff after remand to the state court and realignment of *Martwick* as a plaintiff in *Blase*.

On June 7, 1972 the trial judge granted the defendant's motion for summary judgment and dismissed the consolidated complaints. The plaintiffs then appealed to the Supreme Court of Illinois. On September 25, 1973, the Illinois Supreme Court held for the defendants in an opinion that was focused narrowly on the language of the specific constitutional provision under consideration. It held that in view of the history of the provision and the intent of its sponsors, it was meant, not to impose a specific obligation on the legislature, but to articulate a goal of the state to assume primary responsibility for financing public education.

ILLINOIS

People of the State of Illinois ex rel. Jones v. Adams, 350 N.E.2d 767 (Ill.App. 1976).

Parties. Defendants, who in the context of this case are those attacking the state taxation and school finance provisions, are land-owners and parents of school-aged children in Franklin County, Illinois, who paid their property taxes in 1971 and 1972 under protest. The plaintiff is the county treasurer.

Description. The defendants, who are mostly farmers, paid their property taxes for 1971 and 1972 under protest, arguing that the system of assessing property taxes discriminates against farmers as a class in violation of the equal protection of the laws. Their claims were based on a state constitutional provision that permits counties with a population greater than 200,000, but not others, to classify real property for purposes of taxation; the use of property tax multipliers for successive years without adjustment; and the failure of the tax system to take income into consideration. Finally, they contended that, because the method of financing schools depended to a large extent on local revenues derived from the real estate tax, children in poor school districts were deprived of equal protection of the laws.

Status. On July 9, 1976, the Illinois Appellate Court rejected the defendants' claims and affirmed a lower court ruling in the state's favor. With respect to the first three contentions, the Court found a rational basis to support the population requirement for property classification and the method of calculating real estate taxes based on the assessed value of the land regardless of income. The Court further held that the defendants had failed to demonstrate that they were in fact injured by use of the property tax multipliers.

The final argument was a direct assault on Illinois' foundation program for funding public education. Since the law had been amended in 1973 to provide a greater proportion of state funding, the Court considered defendants' claim only with respect to 1971 and 1972. The Court's opinion is noteworthy for its expansive reading of *San Antonio Independent School District v. Rodriguez*, 411 U.S. 1 (1973).

The Court noted that *Rodriguez* had displaced *McInnis v. Shapiro*, 293 F.Supp. 327 (N.D.Ill.E.D. 1968), *aff'd sub nom. McInnis v. Ogilvie*, 394 U.S. 322 (1969) as the relevant authority. The Court interpreted *Rodriguez* as applying an intermediate standard of review, between minimum rationality and strict scrutiny. Under this standard, even though local control of public schools justifies reliance on local property taxes to fund the public schools, reliance on district property wealth could be invidiously discriminatory depending upon the adequacy of the education provided and the size of disparity in per pupil expenditures between school districts in the state. The court concluded that under *Rodriguez* a state's method of financing public education "might deny children in especially poor school districts the

equal protection of the laws, and yet might be constitutional with respect to children in other school districts." *Id.* 776. Nevertheless, applying this standard to the facts before it, the Illinois Court found that the defendants had failed to meet their burden of proof by failing to introduce evidence concerning the adequacy of education and the size of the disparity in per-pupil expenditures between school districts in 1971 and 1972.

KANSAS

Knowles v. State Board of Education, 219 Kan. 271, 547 P.2d 699 (1976)

Parties. Plaintiffs are residents and taxpayers of certain Kansas school districts, students enrolled in school districts adversely affected by the School Finance Act, and 41 unified school districts. Defendants are the Attorney General, the State Board of Education, Director of Accounts and Reports, the State Treasurer and the Commissioner of Education.

Description. This suit sought a declaratory judgment that the School District Equalization Act of 1973 was unconstitutional. Plaintiffs contended that the state's real estate sales ratio study, which was an integral part of the distribution system for state aid, actually gave a distorted picture of district property wealth. Plaintiffs alleged that the Act violated Article 6 § 1, Article 6 § 5, Article 6 § 6(b), and Article 11 § 1 of the Kansas Constitution and the equal protection clause of the 14th Amendment of the U.S. Constitution and § 1 of the Kansas Bill of Rights.

On February 25, 1975, the trial court upheld plaintiffs' claims and declared the statute unconstitutional. The court found that the distribution of state funds resulted in unequal benefits to certain school districts and an unequal burden of *ad valorem* school taxes on taxpayers in various districts with no rational basis. The court also found the Act insufficient to provide a fundamental education for the students within the plaintiffs' districts on a rationally equal basis with students of other districts within the state. The court set July 1, 1975, for an injunction to take effect if the legislature, which was then in session, did not correct the problem. The legislature repealed various sections of the law and enacted amendments. The court then dismissed the case as moot and refused to consider arguments by the plaintiffs that the amendments had not worked any material changes. Plaintiffs appealed.

Status. The Supreme Court reversed and remanded for consideration by the trial court as to the validity of the 1975 Act. The Court noted six changes that appeared to remove some of the objectionable

features of the 1973 law, but was unwilling to decide the constitutionality of the new system without a factual record developed at trial. The Court distinguished cases in which the challenge was to the basic theory of the law itself rather than to the operation and effect of the law on particular persons.

In holding that the trial court had improperly dismissed the case as moot, the Court pointed out that the amendments had not changed the "design" of the statute, and that the right of affected persons to challenge such legislation should not be aborted every time the legislature enacts an amendment.

As of this printing, no further proceedings have taken place in the trial court.

LOUISIANA

Scarnato v. Parker 415 F.Supp. 272, (U.S. District Court, M.D. La., 1976)

Parties. Plaintiffs are children attending elementary and secondary schools in Louisiana. Defendants are the Treasurer of the State of Louisiana. The State Board of Elementary and Secondary Education and its individual members, the State Comptroller and the State Superintendent of Public Education.

Description. This is a suit for declaratory and injunctive relief to hold Louisiana's Minimum Foundation Program unconstitutional under the equal protection clause of the 14th Amendment to the federal Constitution. Unlike most states, Louisiana's constitution specifically requires the legislature to establish a Minimum Foundation Program and to ensure that the funds allocated are equitably distributed to parish and city school systems. School districts are also required to support public education by levying an *ad valorem* property tax not to exceed 5 mills (except Orleans Parish, which can levy up to 13 mills). The amount of equalization aid is the difference between the total cost of a district's program and the amount raised by the 5-mill levy. The gravamen of plaintiffs' complaint is that, since assessments are not uniform, the application of a standard millage rate penalizes those districts using a high assessment rate. They also claim that the system established by the legislature violates Article VIII § 13(b) of the state constitution which requires an equitable allotment of the funds.

Status. On June 15, 1976, the three-judge federal court entered summary judgment for the defendants, thereby dismissing the suit. The court noted the absence of any evidence that the program discriminates against any definable category of poor people or results

in the absolute deprivation of minimum foundation education to any class. The court next observed that, even if all property were assessed on a uniform basis, differences would still result based on variations in local property wealth. The court held that the alleged defect in Louisiana's program was not dissimilar from the wealth-related disparities held not to violate the equal protection clause in the *Rodriguez* case. The court also stressed that, because of legislative changes, the relief sought would only affect one year's appropriation and therefore was not of a continuing nature.

Finally, the court dismissed the pendent claim asserted under the Louisiana constitution. Although not clear from the court's opinion, it appears that this was an application of the abstention doctrine relegating the parties to the state courts for the resolution of this question.

Plaintiffs are seeking review by a writ of certiorari in the U.S. Supreme Court.

MONTANA

State ex rel. Woodahl v. Straub, 164 Mt. 141, 520 P.2d 776 (Montana Supreme Court 1974)

Parties. Plaintiffs in this original proceeding before the Montana Supreme Court were the Montana Attorney General and Department of Revenue. Defendants were county officials in a property rich county.

Description. Plaintiffs, in an original action in the Montana Supreme Court, sought a ruling on the constitutionality of recently passed school finance legislation which required counties raising more than the amount needed to fund the "foundation program" with a 40-mill property tax levy to pay over the excess to the state for redistribution to counties which raised less than the foundation amount with a 40-mill levy. This action was precipitated by the refusal of defendants, county officials, to pay over to the state the amount required by this provision. The court characterized the 40-mill levy as a statewide property tax. It held that the legislature had the power to levy such a tax and to use the proceeds for any public purpose including to fulfill its constitutional duty to fund public education. The court rejected the argument that the tax discriminates against the taxpayers of the property rich counties on the grounds that all taxpayers were taxed at the same rate, that the state as a whole benefited and

that it was no defense to the collection of the tax that certain counties did not receive benefits directly in the amount of their contribution.

OHIO

State of Ohio ex rel. Akron Education Association v. Essex, 47 Ohio St.2d 47, __ N.E.__ (Ohio Supreme Court, 1976)

Parties. The plaintiffs are three individuals who are members of the Akron Education Association. Defendants are the State Superintendent of Instruction and the Tax Commissioner.

Description. In 1975, Ohio enacted finance reform legislation to replace its foundation program. The new act creates a two-tiered guaranteed tax base program which provides equalization aid for 95% of the school districts in the state. Governor Rhodes vetoed seven line items of the act including provisions for minimum teachers' salaries and staffing requirements and for the establishment of an urban education pilot project. Plaintiffs brought an original action for mandamus in the Ohio Supreme Court claiming that the Governor lacks constitutional authority to partially veto the bill, because such action is limited to appropriation measures.

Status. On October 21, the defendants filed a motion to dismiss on the ground that mandamus jurisdiction does not lie. On November 14, plaintiffs filed a memorandum in opposition to the motion. The court ruled for plaintiffs and found the Governor's veto unauthorized.

OREGON

Olsen v. Oregon (Oregon Supreme Court, September 3, 1976)

Parties. This is a class action on behalf of all public school-children in the state of Oregon, excepting those in school districts with the greatest wealth per pupil subject to local taxation for public education. The plaintiffs also include taxpayers who reside in low-wealth property districts with children in the public schools. The defendants are the State Attorney General and the Superintendent of Public Instruction.

Description. Plaintiffs contend that Article VIII, Section 3, of Oregon's constitution, requiring the legislature to "...provide by law for the establishment of a uniform, and general system of common schools," establishes education as a "fundamental interest" for the purposes of the state's equal protection clause, requiring legislative classifications to be judged by the "compelling interest" test to deter-

mine the validity of the school finance system. Plaintiffs also contend that "uniform and general" language itself requires that the quality of the child's education as measured by dollar expenditures not be a function of the wealth of that child's family, school district, or any entity other than the state as a whole. They claim that Oregon's school finance system is ineffective in equalizing spending from district to district, so that wealthy districts have significantly higher educational expenditures with less tax effort than poorer districts, and that the "flat grant" provision of the system has a disequalizing effect. In 1972-73, for example, a year in which Oregon spent \$603 million on public elementary and secondary education, local government supplied 78% to the state's 16%, or \$111 million. Of this figure, \$79 million was distributed in flat grants, while only \$15 million was used for equalization. The result was wide variations in per pupil expenditures between school districts within the state. The plaintiffs also claim that the system violates the state's equal protection and tax uniformity provisions with regard to the plaintiff parent taxpayers.

Status. The suit was filed early in 1972. It was tried before a state circuit court judge in September 1973. On February 25, 1975, the trial court ruled against the plaintiffs.

On September 3, 1976, the Oregon Supreme Court affirmed the trial court's judgment. While recognizing that it could interpret the equal protection clause of the Oregon Constitution more broadly than that of the federal constitution, the Court declined to do so in this case. It rejected the test set forth in *San Antonio Independent School District v. Rodriguez* for determining whether a constitutional right is of fundamental importance or not, and it refused to find that the fact that education was explicitly mentioned in the constitution was controlling. Rather, the Court adopted a balancing test under which it "weights the detriment to the education of the children of certain districts against the ostensible justification for the scheme of school financing." The Court found that the interest impinged upon--educational opportunity--was outweighed by the state's objective in maintaining local control. The Court was also unpersuaded by plaintiffs' argument that the present system violates Article VIII, Section 3, of the Oregon constitution, requiring a "uniform" system of Oregon schools, holding that that provision is met if the state requires and provides for a minimum of educational opportunities in the district and permits the districts to exercise local control over what they can furnish over the minimum.

WASHINGTON

Northshore School District v. Kinnear, 84 Wash.2d. 685, 530 P.2d 178 (1974)

Parties. Plaintiffs were school districts, school children and their guardians *ad litem*, parents of school children, school directors and taxpayers of the State of Washington. The defendants were the State Department of Revenue, the State Superintendent of Public Instruction, the State Treasurer and members of the Board of Education in the State of Washington, and the State of Washington.

Description. Plaintiffs alleged that as a direct result of the State school financing scheme, which makes the quality of every child's public education a function of the taxable wealth per pupil of the school district in which he resides, substantial disparity among the state's school districts exist in the dollar amount spent per pupil and therefore in the quality and extent of available educational opportunities as well as in the rate of taxes which must be paid for the same or lesser educational opportunities in violation of the state's duty to provide for the ample provision of education and of the State of Washington's and the United States' constitutional provisions guaranteeing equal educational opportunity. Plaintiffs asked the court to declare the financing system void as repugnant to the equal protection and education provisions of the State constitution and the 14th Amendment to the U.S. Constitution.

Status. The case was filed in the Washington State Supreme Court in April 1972. The original jurisdiction of the court was appropriate because of a state procedural rule allowing for appellate jurisdiction in actions against state officers. In December 1974, a divided Supreme Court of Washington upheld the state's educational finance statute. Five separate opinions were filed by the nine member court. Only three members of the court voted to uphold the system without reservation. Three other members of the court concurred in the result. Three judges dissented.

The three justices who had no reservations about the system's constitutionality denied that children were unequally treated as a result of differences among districts in assessed valuation per pupil contrary to equal protection requirements and found that a "uniform and general system" of education only requires certain minimum educational opportunities be provided.

Two of the concurring justices had substantial reservations about the constitutionality of the educational finance system, believing that the "States contribution to the cost of educating children within its borders is inadequate." However, they found that the trial record did not clearly disclose this inadequacy. A third concurring justice found that plaintiffs had not established their case.

Three other justices joined in a strong dissent which characterized the plurality opinion as a "legal pygmy of doubtful origin." The

dissent accused the majority of ignoring the facts in the case which showed that there is a direct relationship between assessed valuation per pupil and expenditures per pupil and that state aid has non-equalizing effects. Consequently the dissenters found that the state had failed in its "paramount duty. . .to make ample provision for the education of all children" by means of a "general and uniform" system of public schools as required by the state constitution.

WISCONSIN

Buse v. Smith (Wisconsin Supreme Court, No. 76-552, November 30, 1976)

Parties. Plaintiffs are "negative aid" school districts; residents, taxpayers, and school board members of "negative aid" districts; and parents of children who attend "negative aid" district schools. Defendants are the Wisconsin State Treasurer, the Superintendent of Public Instruction, and the Wisconsin Department of Public Instruction.

Description. In 1973, the Wisconsin legislature enacted reform legislation, the purpose of which was to remove property wealth as a factor in determining the amount of per pupil expenditures. In the 1973 School Finance Act, the legislature set guaranteed primary and secondary valuations for all school districts and established a formula by which districts determine the mill rate needed to produce the per pupil expenditure it wished to make. "Negative aid" was a recapture device whereby districts spending, in excess of a ceiling set by the state were required to pay a portion of their property tax revenues into the state general fund, ultimately to be redistributed to other school districts in the state.

Status. On November 30, 1976, the Wisconsin Supreme Court struck down the negative aid provision of the 1974 school finance law. The principal opinion, representing the views of two justices, held negative aid to be a local tax. With this as its point of departure, the opinion concluded that negative aid violates the principle embodied in the uniformity clause of Article VIII, Section 1, of the state constitution that taxes levied and collected in one district cannot be used for the direct benefit of other school districts or for the sole benefit of the state.

The concurring opinion, representing the views of two additional members of the Court, argues that negative aid is a state tax, but that the result is the same.

The three dissenting judges argued that the purpose of school districts is not merely to educate their own children, but to share in the statewide educational system. The dissent finds no constitutional deficiency in using tax money raised in one district to benefit the entire system of public education in the state.

Mr. LONG. Thank you.

I am the Director of the School Finance Project of the Lawyers' Committee for Civil Rights Under Law. My testimony will be directed towards the agenda which the school finance reform cases that have been filed in the last decade have set for school finance reform in the States.

I hope by reflecting on this to be able to make some recommendations with the Federal role in supporting this agenda.

First, with respect to the Federal role, one point that I think that is often forgotten is what an important role the Federal Government originally played in creating very high aspirations in our society for education. You may know that in State constitutions the language contains very strong language about provision of education, that it must be adequate, thorough, efficient, general, uniform.

Some more modern constitutions specifically refer to the requirement of equal educational opportunity. But when you look historically at the origins of the State constitutions, you find an important State role, and that role is determined by the fact that when States were admitted to the Union, Congress set aside Section 16 land in many States, and set aside more than a single section per township in a number of western States, which created in the minds of State constitutional framers the financial wherewithal to provide a free education for children back in the 19th century.

It turned out that their projections about the wealth of that Section 16 land were far overdrawn. In many States the constitutional framers thought that that would pay for the whole cost of education; that is, the Federal Government grant.

As it turned out it didn't, and the fact that it didn't is one of the major reasons historically that the patterns of inequality, particularly as they result from differential wealth, has occurred, because this land was far more valuable in some parts of the State—that is, the Section 16 land—than other parts.

When it turned out it was not going to pay for the whole cost of education, State legislatures, rather than putting up the funds from the State treasury, too often allowed districts to sink or swim on the basis of their own wealth, and that continues to be the prevailing pattern in the States.

Frequently, I find there is some cynicism as to what these dollar inequalities mean. In preparation for school finance cases we have talked to hundreds of classroom teachers and principals. We have been through both rich and poor, high spending districts and I can testify that dollar inequalities to children, these are reflected in pupil-teacher ratios as well as the availability, the scope and quality of the curriculum and the ability to provide for handicapped and disadvantaged students. Also, maintenance when funds are not

available. These inequalities reflect no rational economic qualities but, rather, manifestations of the unequal distribution of wealth and of educational tasks. States have delegated educational responsibilities to districts, but yet we all know those educational responsibilities differ. Some districts have children who require more intensive services than others. Yet, the funds available for education are, in virtually no State, distributed in a way proportionate to the educational tasks imposed and delegated to districts. These districts have no ability to avoid these tasks since children are served where they live.

The California Supreme Court in *Serrano v. Priest* and the subsequent litigation has brought the discriminatory systems of educational funding into full public view. In large part, it has set the agenda for reform.

It is important to discuss what *Serrano* did and didn't require. Basically, *Serrano* prescribed making expenditures depend upon the wealth of the school district rather than on the State as a whole. This has been termed fiscal neutrality.

In the months following *Serrano*, 30 cases were filed in both State and Federal courts charging inequitable finance schemes because of wealth discrimination. However, less than two years after *Serrano*, *San Antonio v. Rodriguez* virtually eliminated the Federal courts from these issues. It had the practical effect of placing the issues back in the laps of the State courts. State constitutions give explicit recognition in a way the Federal Constitution doesn't. And I will describe there have been State supreme courts and trial courts which have used this language as well as State equal protection language in their State legislation. It prohibited unequal educational opportunities even though the U.S. Supreme Court didn't. The people are confused as to why the cases don't go away after *Rodriguez*. If the State court uses the same reasoning as did the U.S. Supreme Court, the wealth discrimination and other forms of discrimination would fall without changing the logic one bit since education is usually implicitly a right guaranteed by State constitutions.

The fact that it was not such a right under the Federal Constitution was in large part the basis for it not being held unconstitutional under the 14th Amendment.

Another source of Constitution as to school litigation is why the *Serrano* case continued after 1971. In fact, there was a *Serrano II* decision in December of 1976. This reaffirmed the earlier decision. The reason was the earlier decision was based on a dismissal by the trial court which was then remanded to the trial court and they affirmed the holding. That was again affirmed by the California Supreme Court in 1976, which held similarly to the Supreme Court in *Rodriguez* that education was a fundamental interest in California.

That decision in *Serrano* was followed in April of 1977 by the Connecticut Supreme Court in *Horton v. Meskill*. This is a case similar to *Serrano*. There are several other cases challenging the effects on educational opportunities of disparities in taxable wealth among school districts pending in Arkansas, Colorado, Georgia, and New York. These cases are best understood by what they prohibit—

inequality in educational opportunity which results from making educational expenditures a function of each school district's taxable wealth rather than the wealth of the State as a whole. These cases do not require equal expenditures; they do not undermine any rational cost or need variations which would provide different amounts or kinds of resources for different children or districts; moreover they do not prescribe the precise manner in which State aid must be distributed or what needs or costs the States must equally or differentially fund. All that the fiscal neutrality cases require is that a school district's tax base not dictate its expenditures.

We know there are other inequalities in addition to fiscal-capacity-related ones. State courts in New Jersey, Washington, Ohio and New York have dealt with them. These inequalities include differential cost of meeting the needs of certain kinds of educational problems and differential needs and the willingness or abilities of taxpayers to vote funds for an adequate education.

The legal basis for many of these broader challenges in school finance was laid by the New Jersey Supreme Court in *Robinson v. Cahill*. This case was decided a month after *Rodriguez* back in 1973. It is an interesting case. The last lines haven't been penned in. The full implications are not completely known, but the court was quite clear in addition to wealth inequalities, the State had an obligation to spell out the content of the educational opportunity which was encompassed by a thorough and efficient education, which it had never done.

The court also saw the constitutional obligation as having an effectiveness or output focus. They needed to equip children in roles of citizens and competitors in the labor market.

A subsequent case decided in 1977 by a trial court in the State of Washington applied the reasoning of *Robinson*. One of the inequalities in school finance is that voters, for one reason or another, are not willing to adequately support education. In Seattle, 1975 and 1976, Seattle had to pass a referendum for 40 percent of its operating budget. The referendum failed. There were substantial cutbacks in services. Seattle went to court and the trial court in the State of Washington ruled that the State of Washington could not fulfill its "paramount duty ... to make ample provision for the education of all children" merely by delegating this constitutional responsibility to local voters who have no legal obligation to pass referenda. The State must either directly fund or provide a dependable and regular tax source for funding a basic program of education.

The delegation of that obligation of the local voters doesn't fulfill the obligation. The State Constitution has been held to require the State to directly fund or make ample provision for local funding of a basic program of education, a concept somewhat akin to the thorough and efficient education as referred to by the New Jersey Court.

Both courts have indicated this is more than a minimal educational opportunity. In neither case has the court had a full opportunity to opine on the scope of that opportunity, but it is not what the lowest State expends.

One of the corollaries of *Robinson* is that the State should insure that resources of a district are commensurate with the Federal tax

in costs of the district. It is clear that central city districts and other districts with high concentrations of high-need children needing more services of educational projects, have additional claims to resources.

Also, we know the tax bases of cities are strained to provide services to low-income and increasingly aging populations, a problem referred to as municipal overburden.

In Ohio and New York, trials have been completed but the court has not ruled. They contend the aid systems in those States are unconstitutional because of the failure of the State to address rationally these extra burdens which central cities have to bear.

The *Howell* case is brought by Cincinnati and New York has four cities which are suburban and rural districts in a fiscal neutrality group. But the cities are intervening on the basis of their extra burdens.

Another problem which I would like to make the committee aware of, although it has not as yet been the subject of litigation, is the underfunding of many majority black school districts in the South. The Lawyers Committee has recently completed a study in South Carolina and found that resource disparity between majority black and white districts has grown since desegregation. Many public officials have been unwilling to levy local property taxes adequate to support the public schools at a level comparable to majority white districts. If these districts are doubly burdened by low incomes and low property wealth, when you combine those with low effort, you find the inequality in those systems is maximized when you compare them to majority white districts.

I have attempted to show there are substantial inequalities among the school districts which result from overlapping problems of wealth, municipal tasks and voter disinterest in public education.

Usually, individual cases haven't addressed all these problems at once. This is in some respect inherent in the case-by-case method. Most of the cases such as *Serrano* have focused on wealth and economies. However, I don't believe there is a theoretical conflict between the various theories. These are cumulative problems which can be dealt with at the same time through legislation and is on the legislative side.

Within the legislative issues, I would like to turn my discussion to the consideration of the Federal role and the Federal agenda for equalization within the States.

I believe the cases have been essential for producing most of the reform in financing education, but that is no surprise. Litigation is a slow and costly activity. Ultimately, it is the legislature which must respond. Now, Allan Odden indicated new legislation has been passed in a number of States to address one or more of these problems. In some cases as a result of litigation; in some cases without it.

However, such action has frequently been used to eliminate inequality. Connecticut and Georgia enacted reform legislation in recent years but it has never funded it.

In another State, legislation originally heralded as reform has merely perpetuated financial inequalities.

In reflecting on 25 States which it has been indicated substantial reform has taken place, I would venture to say perhaps the majority of those wouldn't cooperate and I suspect at their present funding levels, wouldn't meet a reasonable standard of fiscal neutrality even in States which have taken the first steps.

The next step is in the balance and I would not want to predict to what extent in individual States those next steps will be. We just don't know. There are a number of States which have not taken a first step toward the elimination of these inequalities. It is because of these roles the Federal role is necessary. There have been States where school finance cases have gone to the highest court in the State, Idaho, Oregon, Arizona, for example, and have projected these inequalities as being of constitutional magnitude. Maybe some of these States will take action on their own.

What should the primary focus of the Federal role be? I believe there are three areas that the Federal Government should focus on if it has to make a choice among areas, as I believe it does.

I think it should address three primary causes of inequality. The first is resulting from differences among districts in wealth. The second is the mismatch between educational needs and educational resources; particularly in central cities and other districts affected by high concentration of high income, low achieving children. The third area would be to eliminate discrimination against minority children in access to educational resources.

In past years, there have been other bills proposed which would deal with other issues, primarily focusing on tax reform. In my opinion, the Federal role which would focus on tax reform, be it property or increasing the share of costs in and of itself, would be effective ways of producing greater equalization of educational resources.

I have come to this conclusion on the basis that on the facts in State legislatures, where there is a contest in school reform between taxpayers and children, I believe the records will show, taxpayers have generally won. In low-expenditures, low-wealth districts, the tendency is to build in tax reform.

However, tax reform obviously is an important aspect of equalization. In many cases, reform consists of the administration of the property tax.

In a focus of educational resources, the Federal role would have a substantial spillover in property tax and in other fiscal reform.

Finally, I would like to deal with the relationship between Title I of the Elementary and Secondary Education Act and any Federal equalization. As you know, at present in low-income areas, these are areas that I believe so long as State resources are not fully equalized, cry out for the use of limited Federal resources to meet the needs of those children. I believe it is important that any program of equalization not draw funds away from Title I. States are still a long way from guaranteeing disadvantaged children receive the services they need. A small amount of unrestricted funds would in large measure, in cities where such would be used, meet the financial crisis for the moment rather than for such children's needs.

In addition, I believe, educational opportunities should be provided proportionately as far as Federal aid and low-educational

expenditures as well as providing extra services to hard-pressed but high-cost cities.

Yet, even at its present funding level, Title I can't fully provide for all the children eligible. The present proposal has a \$3 billion threshold. I believe that is an important concept to be retained in any effort by the Federal Government. However, I would propose this level be established at the necessary funding level to fully fund Title I which would be above the \$3 billion effort.

I will close by saying if the Federal role is going to be a small roll, it should be focused on programs which go to the greatest need children. Only if the Federal Government is committed to a far more substantial role than that do I think the general purpose funds should be distributed; and I believe there is little reason to include flat grants to States as Title I of H.R. 1138 proposes.

I think it would be a much better use of funds to only give funds designed for equalization clearly used for equalization.

Thank you.

Mr. QUIE. Thank you, Mr. Long. I find it interesting in suggesting that if we try to push for tax reform we are unlikely to get much educational equality or if we push for equality of educational opportunity we are likely to find tax reform in States as a means to bring that about.

Mr. LONG. Let me give you an example or two. In New Jersey, in the wake of *Robinson v. Cahill*, the legislature in 1975 came up with a bill they didn't fund. They finally did after prodding and it was feasible for New Jersey, I believe, to pass for the first time a state-wide income tax which provided fiscal balance between State and local levels.

An additional example would be in a State like Connecticut which has distributed education on the basis of a flat grant. Under the new legislative proposal, and obviously pushed by the more recent Supreme Court ruling in that State, New Jersey has to come up with a plan that equalizes. If they want to continue to use the local property tax they will for the first time have to monitor local tax administration. For example, in Connecticut there is no system for equalizing assessments in ratios between taxable districts, so you don't know whether the assessment ratios reported to the State are comparable to any other State ratio. The State can monitor and correct for errors in local practices or they can use assessment ratio studies at the State levels to correct mathematical errors and use those calculations to enhance State aid.

So, I believe it is inherent in any equalization proposal, that there are substantial spillovers in tax reform. Unfortunately, the opposite is not true.

Mr. QUIE. To what extent do you think we in the Congress should enact legislation on the thorough and efficient basis as in New Jersey? To what extent do you think we can build on that at the Federal level?

Mr. LONG. The Federal Government already has a program Title I ESEA which has most of the elements which would be included in a thorough and efficient system. Some objective measurement, some planning of what you expect the results to be, measurement, evaluation, changes of programs based upon failures to produce results.

These are obviously areas which need more attention but, in my view, the Title I thrust is a valid thrust and I would not like to see at least small amounts of Federal aid detract from that.

Title I as a concept which has been increasingly institutionalized has had a substantial spillover in areas such as thorough and efficient. Since 1965, I don't believe either the States or districts could handle these as they do now.

Mr. QUIE. Title I doesn't require much of anything of the State or the school district in providing an adequate education.

It is true about 15 States have some sort of State compensatory education program. My own State started on a plan in 1965 but when the Federal Government started a compensatory education program, Minnesota got out of it.

In P.L. 94-142, the Education of All Handicapped children Act, we also provide a formula to schools for special education but there we mandate by 1978 that they had to provide free and appropriate education for every handicapped child in the State.

What do you think of the possibilities of us following that route by requiring the States to provide free and appropriate education for all children in order to get the Title I funds?

Mr. LONG. I think it might be a difficult concept to administer at the Federal level and I would hope any Federal effort would stimulate States to give more serious attention to adequacy of their programs. I am not prepared to go into possible mechanics for that. But since you addressed the issue of handicapped funding, I think it is important to point out there will be a serious fiscal crisis in many States because of financial obligations. This is already happening in Massachusetts, which was one of the pioneers in educational funding. What has happened is that it has become so costly, it is becoming a first claim on what is called Chapter 70, I believe, funds, the general equalization funding so that part has gone lacking as a result of the increase of funding for handicapped programs resulting in tremendous increases in the tax burden on local cities and towns.

I think as Public Law 94-142 obligations become phased in, that will result in more and more States.

There is a serious question which I have not looked at empirically where at least in the next five years, for example, the Federal dollars would be better spent in providing programs or handicapped programs because you would perhaps free up education dollars or where it should be put into equalization funds.

Mr. QUIE. Mr. Odden.

Mr. ODDEN. In terms of the Federal role, I think one thing you would have to be cognizant of is that a number of States, and I don't know exactly what the number is, but I think in the 30's and 40's, have taken fairly substantial steps in that area. I can send you some information on that from ECS. But States or legislatures have come to pass a number of laws mandating basic educational service or minimal competency testing and a number of other States have come to pass state-wide assessment programs to find out what is going on state-wide in the districts in their States.

The other thing I look to is the program now which is going to be funded and phased in in California and has also been tried with

considerable success in Florida, where the State requires not only the local school districts but school sites to come up with educational programs for the school building in terms of programs providing for adequate services for the children, be they special education for the children in the school. The attempt to expend the IAP to school site and district-wide programs, which is really a child focus developed at the local level, would be a better way to get the funds necessary to the different kinds of children in the different school districts.

Mr. QUIE. I recognize the schools have done a tremendous job, despite the way it has been operating under criticism. The legislators are more interested in the tax structure than legislation. The Congress is more interested as to its own tax structure, defense of the country, plus all the other human resource programs of tremendous volume, which are growing every year, such as welfare and transfer payments. So education comes down the line quite aways in the Congress as well. It has a pretty high priority in this committee but not on the floor.

In fact, we were engaged in conference yesterday in talking about entitlements so the Appropriations Committee wouldn't have a voice in PL 94-142. I think one of the things which motivated us there was at the beginning in Pennsylvania there were court decisions mandating that you provide an education for handicapped but when the courts mandate, they don't provide money for it. We do the same thing even though we provide a portion of the total cost. But I have never heard as great an outcry as I have heard on Public Law 94-142. It is huge. I don't know if it will continue on for years but it is strong now. So we do have a very difficult task in determining how to provide education.

Another question I have on equalization, using my own State again as an example, I have the fear as I watch some other States move in that direction, too, is that we used to have light house school districts, where they provided an outstanding education and drew everybody else to it. Now, when the legislature takes so much of their tax money they have lost the incentive to have the light house district and we may end up with a mediocrity in education.

Have you, Mr. Odden, looked at that?

Mr. ODDEN. It is interesting you brought that up. I just attended a conference in Chicago with some school finance people with some high-spending, so-called light house districts across the country. That concern was voiced but I think with the exception of a couple of States which didn't even have light house school districts as they are conceived, here is a strong, strong trend to level up. I also am from Minnesota and there really has not been a leveling down in Minnesota—

Mr. QUIE. When you look at Minnesota, take a look at Rochester, Minnesota, now they have reduced their effort but they have not been increasing as I would expect them to do.

Mr. ODDEN. The issue there is the choice of the local citizens. There are no restrictions in Minnesota on increasing the educational program. Perhaps the difficulty is getting the voter overrides. In Hopkins, where I grew up, there was difficulty—

Mr. QUIE. Before the so-called Minnesota miracle, the board could do it themselves, then they just got kicked out if they didn't do right during the next election, but when you vote on it it makes it more difficult.

Mr. ODDEN. I agree, but there are other districts where school districts are prohibited from going above a certain tax rate. In Minnesota, if the school districts in Minnesota wanted a higher educational program they had the ability to go and vote the higher millage.

Mr. QUIE. I know from my own experience as a school board member, it takes a huge education job, to increase school spending. My first effort to raise support lost totally. After spending a year talking with everyone, we passed it and I recognize you can get by it that way. But school board members have other jobs and they would rather have people judge their competence in general rather than having to vote on everything.

Mr. ODDEN. One of the problems of school finance in this particular program is that most of the reforms were enacted in the early '70s, then the Nation was hit with inflation and double-digit inflation and it is hard to ferret out the school finance economies or the educational laws.

Mr. QUIE. Mr. Hodge.

Dr. ALEXANDER. The State of Florida, in the name of equal educational opportunity, reduced the millage the local school districts could levy from 12 to 10 to 8 million. The purpose was to reduce local property taxes. The local districts were capped off. The result was substantial fiscal equality among the school districts. However, it has created an inadequacy of support state-wide. The legislature failed to put in additional dollars as they capped off. The present legislature has an expenditure test which would set expenditure limits. Florida's program would be the kind of program which would meet that test. But without a fiscal neutrality standard as in the impact aid, there should be in this legislation a second test, it would seem to me, which would be a fiscal neutrality test which would allow some local effort which would be equalized but not cap the school district off. The danger is, if you cap them off as has happened in Florida, the State legislature will not put forth the area. The result is that Florida now ranks about 47th as to elementary and secondary education so I would urge you to look at the second test.

Mr. QUIE. Could I get the reaction of the other members as to impact aid? It was a tough nut for us to work with here.

Mr. HODGE. I am not familiar with impact aid.

Dr. ALEXANDER. I would say one can always argue as to how strict they can be, but there are fairly good ways of testing the equalization result of the State program under two different equalization standards. It is a good beginning. I would add they are probably too long in being developed.

Mr. QUIE. But you believe or ECS believes we ought to be able to recognize the equalization—

Dr. ALEXANDER. Yes, especially a program such as impact aid should recognize specialization. ECS would say there are two different ways of doing that in terms of one being expenditure equality and the other expenditure fiscal neutrality.

Mr. QUIE. How about the Lawyers' Committee? Have they taken any action on that?

Mr. LONG. I would tend to agree with Allan. I think the committee is aware there has been substantial argument as to the usefulness of at least Part B of impact aid. So long as it is there, it certainly should be used to contribute to equalization.

Mr. QUIE. Have you here any cost estimates on H.R. 1138, any of you? The amount of Federal money that ought to be put into it?

Mr. LONG. I believe Allan Ginsburg and Lawrence Braun of OE, in a study for Rand, did some of that. I know I have seen some of that recently.

Mr. QUIE. All right, we will get that information tomorrow.

Another thing I wanted to raise is that Wilson Riles pointed out yesterday that you shouldn't assume concentrations of low-income students are necessarily in low-income school districts and vice versa. He pointed out in San Francisco, California, there were a high number who couldn't be considered a poor school district over the other school districts.

What came to my mind on Mr. Long's testimony was his Title I focuses the Title I fund on the disadvantaged children in low-income areas.

I don't think Title I has anything to do with low income.

Mr. ODDEN. I think the point Wilson Riles made was that low incomes do tend to be in low-income school districts.

Mr. QUIE. What do you mean local school districts? The school district is not getting as much money from the tax.

Mr. ODDEN. There are some wealthy school districts in San Francisco, but only as to the property wealth of the district. San Francisco looks rich when, in fact, it has a lot of low-income students.

Mr. QUIE. But it is also rich from the average income of the populace.

Mr. ODDEN. It might be on an average, but probably San Francisco, like New York, would have a lot of low income, high income and a lot in the middle.

But Title I will get extra dollars to low-income students. And, secondly, as it stands now, one of the really rapidly emerging issues is to look at not only the property wealth of school districts in terms of allocating dollars but in terms of the income. This is technically true in the Midwestern States. Wisconsin is looking at this, Missouri has put an income factor in its procedure.

One of the things I have written about extensively is in looking at school district wealth, just to look at the wealth and fiscal capacity comprehensively one should look not only at property wealth but income.

Mr. LONG. One thing you find looking at cities is that they vary dramatically both in income and property wealth. In a single State, New York and Ohio, for example, you will find very poor cities and cities which look very wealthy. For instance, Buffalo is at an average or at the low. New York City is very high. Ohio is one of the more diverse States in that regard. So you can't make any assertion as to wealth of cities. But we do know, by and large, cities have high concentrations of low-income children. The public school

systems serve such a disproportion of school populations because they have no children or these are in private school, so there is a difference in the demography of private schools. Title I does two things: Because of the southern States, in particular, it has an interstate equalization but, at the same time, it gets funds to high-spending and high-wealth city districts which are hard pressed as well.

Mr. QUIE. It seems to me you would favor the way the formula operates now that any State whose expenditure per child is less than 80 percent of the national average would get the 80 percent of the national average. Is that what you are talking about? The equalization would—

Mr. LONG. Yes, but generally you find it provides less from State and local resources than from more high-spending States.

Mr. QUIE. Do you agree with the 120 percent put on the top which is shared with the remainder?

Mr. LONG. I think on that one—I would have to see the numbers—it depends on how much money you are expending and what the tradeoffs are.

Mr. QUIE. Mr. Odden.

Mr. ODDEN. I see that as an attempt to offset differential costs among the States. The low-spending States tend to be the low-income States and the high-income States tend to be the high-spending States. So in a sense it can create sort of a disequalizing element to it. What I would suggest is that a flat grant amount be allocated to each State but adjusted by a State-by-State cost of education and then if there were an attempt to link it to some fiscal capacity of the State so the low-income States would get more and the high-income States less.

Mr. QUIE. New York is the State which has the highest per pupil expenditure.

Mr. ODDEN. New York is hit with the cap. One other thing as to measuring fiscal capacity of the States would be not only to look at per capita income but to look at changes. John Shannon of the Advisory Commission of the Governmental Relations Board has indicated a number of the northwestern States still appear to be high in the per capita income and the southwest is low. But there are changes which should be included.

Mr. QUIE. Have any of you looked at municipal overburden in a way you can put a dollar figure on it, because when you look at just the plain property value such as New York City or any cities of that nature, they are higher than parity in the ability to pay but they always come back and say their municipal overburden is so great and other cities such as Boston has a great deal of its burden off the tax roll, therefore, they have less of a capacity to pay. Yet, they don't seem to have as much financial difficulty as New York.

That means New York's financial overburden for some reason or other is greater than Boston. Has ECS or anyone else taken a look at that?

Mr. ODDEN. What I do with municipal overburden and the high cost in cities is to say two things: No. 1, these are hard pressed because of high concentrations of low income kids and special education kids and bilingual students, a lot of kids who need high-

cost educational services. One of the first things which should be done is to develop and fund the educational needs of these cities.

Secondly, the cost of providing a given level of an education is higher in some cities than in other cities. This is prudent and wise and we have been doing this in California and Missouri to develop district indices. The same methodology can be done to develop State-by-State indices for Federal Government. The same thing can be done in Illinois. They allocate additional aid for the concentration of poverty children.

Mr. QUIE. AFDC children are not poverty children.

Mr. ODDEN. The greater the concentration, the greater way of doing that. But maybe Michael has something to say on that.

Mr. HODGE. The problem is not only one of educational overburden, which Mr. Odden just mentioned, but also focused on the financial side. New York's burden is higher than Boston's because of the great municipal service requirements they have for health, hospital, police and fire protection and things of that nature. This impinges on the educational dollar, because there is only so much money to go around, to put it bluntly, that which goes for municipal services is not available for educational services. This is the major focus of the discussion for municipal overburden. I suggest that is the case not only in New York but in varying degrees in most of the major metropolitan and older cities.

Mr. QUIE. New York could collect their garbage a lot less expensively, for example, if they used private contractors, but then you get into the problem of the Federal Government telling local jurisdictions how to run their operation.

Mr. HODGE. Perhaps the Federal Government may be able to provide incentives for other large metropolitan areas.

Mr. LONG. In Michigan they measure purely a total tax rate. So, if a district has a total tax rate for all services it is compensated by getting extra State aid. You will find in most States the central city areas have the highest total tax rates. Questions as to whether some of the services are necessary, because they are there, they pull down the tax rate for education.

If you are interested in seeing that the children are receiving adequate services, you can avoid some of the conceptual services.

Mr. ODDEN. Probably one of the best things that the Federal Government could do in terms of helping both States and localities fund educational services which are better and at a more adequate level would be the assumption of welfare which would be a tremendous boon, for example, better for both the State and the city—

Mr. QUIE. Explain what you mean by the assumption of welfare.

Mr. ODDEN. A greater Federal welfare effort in supporting welfare across the States. Since the next biggest burden is education, they would have more money to put in the educational sector.

Mr. LONG. In fact, one of the differences I have been told between Massachusetts and New York in terms of thinking about Boston and New York is that the State of Massachusetts picks up a far larger share of the total cost of welfare than New York State does for New York City.

Mr. QUIE. How do you then identify the poverty individual?

In Minnesota, two people can be working side by side; one receiving AFDC and the other not. The person receiving AFDC is actually earning more money than the person who is not.

If the AFDC mother's children are counted in the concentration of lower income, while the other mother sitting on the other side earning less is not counted, that, to me, doesn't make much sense. I would ask you, have you thought on that? How we can best identify the poor people? I might throw into that the Congressional Budget Office did another study and said there are half as many poor people in the country as was indicated because they started counting transfer payments.

Mr. HODGE. I think a large part of the problem with Title I, and when you get down to the school and classroom level, basically centers around the underfunding of Title I, there simply was not enough money to go around to service all the persons in need of the services. The Congress in union with the Federal Administrators made the decisions.

What that does is argue generally for a full funding of Title I as it currently exists.

Mr. QUIE. Let me just follow up on that.

If we fully funded, some people are counted and some are not. One would be counted and one would not. If for one reason or another people don't come into AFDC, and don't even participate in the free lunch, therefore, the money doesn't go to that school attendance area.

Mr. HODGE. As I understand it, pupils, that is to say they are part of the eligibles as well as certain pupils classified as poverty on the Orshansky index. Both of those approaches do begin to address the problem of these two groups of pupils. I think as far as formula changes is concerned, I think where there are higher concentrations of both categories of pupils, that in order to reach more of them, additional funds should be provided directed at those areas, I guess that we would include largely the rural and urban population.

Mr. QUIE. Let me reiterate that the ones who are counted are those who were below the Orshansky level of income in 1969 and those who received AFDC payments higher than the Orshansky level as it has been upgraded now.

That means that other individuals who are at the same level of income above the Orshansky level as AFDC don't get counted, and anybody who came in at poverty and is not on the AFDC after 1969, is still not counted.

Mr. ODDEN. We just finished a major project in the State of Missouri where that same issue came up. They were allocating in their general State aid formula an additional amount of funds based on the amount of children for families with AFDC payments, and for a variety of reasons people in the rural areas do not go on AFDC, and therefore are not counted in the eligible.

What Missouri did was to put in an income factor based on the family income of the residents which they collect via the State income tax return and collate by school district. So, within a number of States that have State income taxes, one can get family income data by school district, and then count poverty families as well as AFDC families.

That is a little more difficult at the Federal level because other than the decennial census, or a quinquennial census, it is difficult to get comparable income figures on an annual basis at the AFDC. It is easier to get annually updated AFDC figures.

One could also use the number of children eligible to receive free lunches as a measure of poverty children which is kind of one way of saying there are a number of ways to identify poor kids. But I think there is another aspect of that, and that is that there is, as you well know, a politics of the flow of the dollars depending on which measure you use.

If you are heavy on AFDC with the same amount of dollars relatively more of them would flow to urban city areas than to rural areas. If you concentrate on the poverty measure, relatively more dollars would go to the rural areas than the city areas.

So that I think what one needs to do is look for different measures of poverty that one can find and try to get these measures that can be updated as close to an annual update as possible. But then ultimately I think it is really a political decision on where people want the dollars to flow to more.

Mr. QUIE. Does Missouri use that income information in bringing the money that comes to the State down from the county, or do they use it in determining which school districts receive the money in the county, or do they use it only for selecting the target school district?

Mr. ODDEN. They do it on a school district basis. Just like Minnesota had done up until about a year ago, there is a little box on the income tax return where people identify the school district in which they live, and then the extra dollars flow to the district.

It is a form of general aid, and the district decides how they want to use it.

Mr. QUIE. This is State money, not on Title I.

Mr. ODDEN. Not on Title I. They go two different ways, though. They have the income factor on their general aid formula, and then in addition they also weight AFDC students an extra 25 percent, also in the formula.

So, it is kind of both a poverty factor as well as AFDC factor.

Mr. QUIE. I think we should be aware that when you use the income level for benefits under the school lunch program that you would include families with incomes in excess of \$11,000. When we are dealing with census poverty-level figures—Orshansky index—the figure is \$5,569 for a non-farm family of four.

Dr. ALEXANDER. We have been studying several States, have related the allocation from Title I to achievement test scores. We have found that if you use achievement scores as a measure of educational need among the school districts, that Title I pretty well pinpoints the areas of high need.

If we are trying to relate this back, of course, to the allocation, the State formula allocation, I believe rather than having a municipal overburden variable or some factor such as that not related directly to the educational program, that you would get at the needs of the children in the school districts by using a Title I type variable in the States to equalize within their own State programs—the educational need estimates which this bill, H.R. 1138, speaks to,

educational needs and plans to meet those educational needs, much in the same way as you have the provisions in the handicapped act.

The cost of delivering education, as Allen mentioned, as a variable to correct not for cost of living but for the cost of delivering education. To combine those in a State equalization formula, you pretty well pinpoint the need areas as well as you can, as far as the educational programs are concerned.

Mr. QUIE. Let me ask you, in trying to correlate underachievers with low income, are you talking about the total or are you putting one on one, trying to determine whether each poor child is an underachiever, and each underachiever is a poor child.

Dr. ALEXANDER. We are talking about the grade level achievement in each of the school districts, and the amount of Title I monies they receive.

Mr. QUIE. So that would be the total. This figure, 23.5 percent of the students in the country are underachievers, and about 24.5 percent of all the students in the country get either Title I or some other compensatory education, which makes it sound like we have the match pretty good.

But of the underachievers only 33 percent are poor, 67 percent are nonpoor. That is why I am kind of troubled with the Title I formula. But this hearing does nothing to that.

Those are my questions.

Jack, do you have some questions?

Mr. JENNINGS. Let me apologize to the witnesses for the absence of the Democrats, but there is a House Democratic Caucus this morning on committee reorganization.

Mr. QUIE. I will apologize for the rest of the Republicans.

Mr. JENNINGS. If I could just ask a couple of questions on equalization. The first thing I think which would be helpful would be to try to get on the record the degree to which equalization has actually been achieved to date by the States.

I noted the disparity in the testimony between Mr. Odden's views and Mr. Long's views, or at least at first blush there seemed to be a disparity. Mr. Odden emphasized how much the States have done so far, 25 States adopting State equalization school finance reform plans, whereas Mr. Long said that many of these have not been implemented as yet, there are grandfather clauses and other provisions which won't permit equalization to be achieved for several years.

Is there some way that both of you could put in the record an assessment of the degree of equalization which has been achieved by State, especially in light of these school finance reform plans which have been adopted?

Mr. ODDEN. I think the disagreement between Dave and myself hopefully is kind of at the margin. My major point is that the States have taken major strides to begin major programs of equalization. Some States have not funded the programs. Others have. Still other States are in the process of phasing them in.

What is needed really—and this is perhaps probably something that might have to be done at the Federal level because it is needed across States—is a lot of conceptual work, number one, as well as follow through empirical testing of different ways of measuring

different kinds of equalization attainment of the school finance systems in the State.

Not a whole lot has been done on that. John Callahan, from the National Conference of State Legislatures, did probably the first study of the impact of school finance reforms in about 11 States. The Rand Corporation also with NIE funding is doing some additional funding of the impact of school finance reform, in three, four or five States.

More work needs to be done in that area. There still is hope, but I think this hope has been going on for a number of years, that NCES, in terms of the data it collects, would come up with analytic ways of measuring degrees of equalization.

That has not been done. OE has just put out a RFP on which we bid, and we don't know if we will be awarded the contract, to do a conceptual paper on different ways of measuring equity and pupil standards.

It has been indicated they would follow through with FRFs on fiscal neutrality standards, as well as on pupil standards, but a lot needs to be done in that area. That, I would say, is just beginning to be cracked. Some work was done on it in terms of the National Education finance project.

But I think that is a role that I would argue is clearly a role that various agencies in the Federal Government could play, and it really should be done because we don't know the extent to which there was disequalization before, what advances we have made and what seems to be the trends among different States or among different regions.

Mr. LONG. I would generally agree with Allen Odden's statement. There is a great deal we don't know. However, there is a great deal we do know. I cannot tell you an exact number of States that would meet acceptable criteria, for example, court decisions for equalization.

My perception is mostly of States which have not engaged in reform at all, who have engaged in reform and incompletely funded it, or had a funding mechanism which was seriously flawed, even though it might be considered substantial reform.

California would probably be considered by most definitions as one of those States that is reformed, even though the California Supreme Court last year said that that reform is unconstitutionally deficient. The same in Georgia, and Connecticut, that have on the books programs that look pretty good, if they were fully funded.

But, Connecticut is incompletely funded, and Georgia has funded their equalization proposal not at all. Colorado is a case that also could be considered reform, and it creates serious inequalities.

I think another perspective here is that the issue of equalization is a dynamic one. Inflation very easily can wipe out last year's gains. If the legislature does not keep up with the original intention as to its share, or if it modifies provisions, as has been done in certain States, you will find that there has been a regression to previous patterns, even though there has been no decrease in State funding.

Because costs of education, as everything else, has risen, the failure of the State to keep pace shifts to the local district any

increased costs, and as soon as that happens you see the old inequalities relating to wealth coming back again in a new form.

So, it is very difficult because of the dynamic nature of giving precisely in quantifiable terms the level of equalization.

Mr. JENNINGS. Dr. Alexander?

Dr. ALEXANDER. It depends on your test of equality. But to apply the test in the bill, H.R. 1138, I would venture to say that there is not a State in the country that would meet that test. The impact aid test, there are very few.

We just completed a study in the State of West Virginia. It has at this point I think one of the greatest equalizations or the most equalization among school districts, primarily because it has a pretty good foundation program, and it only has 55 school districts.

But, even in that State they do not meet its fiscal neutrality or expenditure disparity test. So, your standard in the H.R. 1138 is a pretty high standard, and I would say that States would have a long way to go and much work to do to acquire that. Five years would be a relatively short time.

Mr. JENNINGS. Could I ask Mr. Odden and Mr. Long and Dr. Alexander if you want to submit for the record a listing of States showing their disparity in per pupil expenditure, and then showing a short summary of what they have tried to do in school equalization?

One of the problems which we have is that there is a lot of talk of school reform and everything, and yet when you look at a number of these plans you find that there are grandfather clauses, exceptions for revenue which has been raised before a certain date, and so forth.

There are all sorts of conditions put on it. Or, there are conditions put in that the State legislature has to continue to fund it up through the years, or something. When the facts of the real world came into play, you wind up with a lot of what is said is going to be achieved actually does not get achieved.

Therefore, I think it would be helpful for the record, even using crude standards, such as pupil expenditure disparity, just to try to lay out in the record what actually has been achieved by a State.

If you want to use any other standard in addition to that, I think that would be helpful.

One of the problems I have is that they don't know what the words mean. If somebody says fiscal neutrality, if somebody says these other things, it comes down to an independent judgment on whether it is valid or whether it is not valid. At least from the per pupil expenditure standard, disparity standard, nobody can argue about the dollars.

Mr. ODDEN. I can say yes and I will try. The problem is that it is impossible to get comparable expenditure per pupil data on a State-by-State basis. We maintain files, generally every State has a revenue expenditure report that is filed every year.

What States include in their expenditure column varies from one State to another. Nobody really makes those figures comparable on a district-by-district basis for all districts across all States.

Mr. JENNINGS. And that includes NCES.

Mr. ODDEN. Yes. They do it on a stratified random sample basis. They publish annually, for selected States they give some ranges of expenditure per pupils in some selected States, but not all States.

Mr. JENNINGS. You are suggesting, then, as you said earlier, that at a minimum for the Federal Government which shouldn't cost too much money they could come up with an index by States showing the degree of equalization in the States, at least in terms of per pupil expenditures; then have the Federal Government come up with different tests to measure equalization.

Mr. ODDEN. Yes, either do it themselves or come up with RFPs for other people to do the analysis of the data that would be collected by NCES.

Mr. JENNINGS. If I could ask you about Section 842. When that section was put on the books, it says on its face that the grants to the States be used to develop plans for equalization. But the Office of Education in writing the regulations said that State educational agencies would receive the grants.

As Mr. Odden pointed out, in all the States it is the State legislatures which have the responsibility for overseeing, which zealously guard their right to finance education, and therefore the Office of Education may have frustrated equalization to a certain extent by giving a side the educational agency, which doesn't have the prime responsibility for equalization, the first right to that money.

Do you think that building upon that experience, and I think Mr. Odden suggested it, that the Congress might modify that section to make sure that that money is available to State legislatures or governors or whomever it is within the State who is assuming primary responsibility to come up with an equalization plan.

Is there anything else that could be done in light of that experience? Is there some system of grants which could be made directly to the State legislatures or to governors' offices, which might not involve that much money, but which would go directly to the ones who are going to make the decisions to help them achieve equalization?

Mr. ODDEN. In a sense right now that specific question is difficult to answer. In general, the way I would answer it is that, I think I would point to Missouri as an example of a case where this was very effective.

The governor, the legislature and the State department all have to be involved in developing these plans and then kind of nursing legislation through the legislature, and then getting it signed by the Governor.

Unless those three parties are all involved in a certain sense at all steps of the ball game the chances for a major reform actually being enacted and funded are pretty minimal.

So, beyond my ability to go beyond saying those dollars if they are refunded should be made available on an equal basis to legislatures and governors, or let the State decide what the State means in terms of the law, I cannot say much.

I think one of the things that should really be done, though, is development of evaluation of how the 842 dollars were used and to what degree they actually were a stimulus for reform in the States

where they applied for the funds. That question is still out now because we don't know what all the answers are going to be.

But there was, there still is, about \$12.5 to \$13 million of 842 money out there. I think we should take a careful look at what millage the Federal Government got out of those dollars.

As kind of a counterpart to that, I think, not necessarily for comparison but I think one can look to NIE again, the School Financing Productivity Division, which has developed I think a fairly good program in school finance and some of the dollars that they have allocated through ECS and NCSL have been instrumental in getting more States to pass reform pieces of legislation this year.

Some 842 dollars were also used in those States. But the answer on the effectiveness of the way the 842 dollars have been used, we cannot say right now. We don't know what it is right now.

Mr. JENNINGS. Are there any other options which don't cost a great deal of money which the Federal Government could put in place through legislation or administrative action to encourage equalization? The 842 funding was one thing. Is there anything else which comes to mind?

Mr. ODDEN. I think some more flexibility in terms of comingling dollars in States—for example, like Florida. I think Kern is very right there. They have developed a system which probably would meet a decent expenditure per pupil, or perpetuated pupil standard, to equalize both the flow of general aid and categorical aid, and they have developed programs to met all kinds of special pupil needs.

In a State like that, I think it makes sense to be able to comingle State dollars with the Federal dollars for special educational and compensatory education, simply to raise the level of the overall kind of services that are provided for both the basic student as well as the special student.

Dr. ALEXANDER. I would like to comment on the State education agency versus the legislature question. There are certainly arguments on both sides. I have seen both of them demonstrated. I know of one legislature that did not want to use the 842 money because of the equity of taxation provision.

They felt that once they treated the equity of taxation provision, that in some way they would be obligated to revise their tax structure. So, they have not used the 842 money at all.

On the other hand, the State education agencies, some of them have not pursued the 842 money because they had certain vested interests in the present programs, and they have not operated to use those monies.

I think that the way it is structured now is reasonable in that the legislature has the option, always has the option of assuming those resources as it has done in Arkansas, for example—I am working with that State presently. The State Department of Education sought the monies, the universities sought the monies, the legislature decided that it would conduct the study directly.

So, I don't think that we should rush to judgment on the way those monies are delivered at this point. It might be that after you evaluate see what stimulus that this has created to equalize within the States, you might want to alter it or fund it further.

Mr. HODGE. I would like to just characterize the 842 effort as a firm beginning. I think that there were eight equity guidelines to be included in each of the State study plans.

Now, because States are at different points along the way to reform, their study plans actually often did not cover all eight, and that is understandable because some would not have any idea of how to approach the cost questions and other tax equity issues to the full extent.

So, I think that where States have gone far towards fulfilling the equity guidelines, that the Federal Government should assist them in trying to implement some of the programs that they have now studied, where that is feasible.

Where those States have not studied all the items that were considered essential and placed in the equity guidelines, I think 842 funds should be provided for them to begin those kinds of studies, to take them a little further along the road.

Mr. JENNINGS. Mr. Alexander, if I could ask you a question. You mentioned in your statement that it would be very proper for the Federal Government to try to redress inequities between States, and that that might be a more proper role than intrastate equalization efforts.

You also stated that in Mr. Perkins' bill that the standards set in there, especially the disparity standard, were so high no State would be able to achieve those standards at the present time.

Keeping both comments in mind, what suggestions would you have for a Federal role which would cost a substantial amount of money? Would you recommend a system of grants to low income States, or would you recommend that the Federal Government possibly help States to bring their school districts up to a median level, a 50 percent level of expenditure? What would you recommend?

Dr. ALEXANDER. Let me clarify my position there.

First of all, I felt that the thrust of the bill toward intrastate equalization is well taken and should be pursued. I think the option value, as I indicated, of this bill to give a State the opportunity to pursue the equalization grant is the genius of the bill, and I think it is very important.

The question with regard to interstate equalization is should the Federal Government create fiscal neutrality with regard to education among the States. I believe in addition to stimulating intrastate equalization, the Federal Government has an obligation to equalize interstate.

As to how to do that, the best method, there have been various proposals. There has been a proposal for State power equalization as you have district power equalization. That includes an effort provision, as well as a fiscal neutrality provision.

I believe, though, that the best way to fiscally equalize, and not to do damage to the basic bill here, would be to simply charge back a percentage of the personal income of the State against the allocation.

In other words, you would have a kind of a foundation at the Federal level, and you could base it on \$200 or \$300 or the equivalent dollars that were in this program, charge back a percentage of

the total personal income of the State against that allocation amount, and you would equalize among the States.

That, I feel, could be added just as another provision here. The total amount of monies could remain the same. It would fluctuate the allocations based on their wealth.

Mr. JENNINGS. Mr. Long, I am intrigued with your argument as to Section 16, land payments to the States, and how the Federal Government initially discouraged equalization of resources by giving out land to the States under the Northwest Ordinance; and the resulting effect because of the divergence of wealth. I know in the old Northwest, the Federal Government did provide for a certain acreage to be given to certain school districts, was that practice throughout the country after that?

Mr. LONG. Yes. I am not up on the history of all 50 States but the Northwest Territories were the first recipients of those funds. They got only Section 616.

In later admitted States such as Idaho, they got not only Section 616, but a second section, maybe 32. I also believe that some even later admitted States then got four sections. So the amount of the land grant increased over time toward the end of the 19th Century. What happened was that aspirations for being able to provide an equal educational opportunity were raised by this grant, and the booster is in the development of a new State. There is an anticipation this land would be very valuable. There would be an immediate settlement. Those aspirations have only been recognized lately when the land was either sold off for low amounts or traded off. In some States you did not end up with Section 616 for schools, but you may have ended up with inferior plots. In some States you can't sell it.

There were high aspirations created then when the funds did not materialize. States were forced to take it out of their treasury or multiple tax bases. Virtually every State opted because of the fiscal conduct because in many areas they didn't value education in some parts of the country.

Mr. JENNINGS. That is an intriguing theory to justify a Federal role to assist the States in equalizing.

Mr. LONG. It is absolutely apparent in constitutional States such as Idaho, where I spent a good deal of time rummaging through books where the framers of the Constitution were very sensitive to education. The acts admitting these States of the Union were very short acts. In each one of them there is at least one paragraph devoted to education and the State had to commit itself to that. I forget the exact words, but it came out to something like, cherish education and to hold those lands for the benefit of education.

So, the Federal Government imposed upon those States' position.

Mr. JENNINGS. Could you provide some further information by State on this matter; if not, possibly the Library of Congress can do so.

[See Appendix 6.]

Mr. JENNINGS. Thank you, gentlemen.

Mr. QUIE. Thank you, gentlemen.

[Whereupon, at 11:10 the subcommittee was adjourned.]

[Additional material submitted for inclusion in the record follows:]



Education Commission of the States

300 LINCOLN TOWER • 1800 LINCOLN STREET
7303 983-5200 • DENVER, COLORADO 80202

October 6, 1977

Mr. Jack Jennings
Counsel and Staff Director
Sub-Committee on Elementary/Secondary and
Vocational Education
Committee on Education and Labor
U.S. House
8346C Rayburn House Office Building
Washington, D.C. 20515

Dear Jack:

I am enclosing copies of tables that have appeared in the 1976 and 1977 issues of *The Condition of Education* published by the National Center for Education Statistics. These charts give a pretty good indication of the expenditure per pupil variations that exists across school districts in the fifty states. The data used to produce these charts could, I would assume, be used to make even more sophisticated tests of the degree to which expenditure per pupil equality exists both within and among states. At the present time, I am fairly sure that the NCES tapes do not include local wealth or income figures; thus tests of fiscal neutrality cannot be made at this time.

As I mentioned in my testimony in response to your question, there is much conceptual as well as empirical work that needs to be done in order to assess the degree to which state structures of elementary/secondary education finance meet either of the two equity standards. The ECS Finance Center will be working on this issue over the course of this coming year. Our work will include the development, in cooperation with NCSL, of a strategy for generating the necessary data to produce measures of both inter- and intra-state equalization, under both the expenditure per pupil equality and fiscal neutrality standards.

I hope these materials are useful. I enjoyed meeting you and look forward to working more closely with you in the future.

Cordially,

Allan Odden, Director
Education Finance Center

AQ:jm

Enclosures

1976

Many States show substantial variations in expenditures per pupil by school district.

Chart 7.10

Distribution of School Systems, by Current Expenditures

State	Total operating systems	Percent distribution of expenditures per pupil							Median expenditure per pupil
		Total	less than \$700	\$700 to \$899	\$900 to \$1,099	\$1,100 to \$1,299	\$1,300 to \$1,499	\$1,500 or more	
U.S. total	16,338	100.00	12.05	22.60	27.43	18.79	9.89	9.22	\$1,008
Alabama	126	100.00	67.16	35.86	0	1.98	0	0	669
Alaska	32	100.00	0	0	0	0	100.00	2,263	912
Arizona	276	100.00	9.51	37.49	27.24	2.70	19.62	3.24	739
Arkansas	383	100.00	43.14	33.60	18.76	4.30	0	0	1,094
California	1,045	100.00	8.11	18.79	24.32	19.79	18.95	10.03	1,236
Colorado	181	100.00	0	15.59	20.05	25.62	11.14	27.60	1,143
Connecticut	165	100.00	1.31	5.02	33.79	33.03	11.88	14.97	1,112
Delaware	24	100.00	0	3.85	46.15	34.61	3.85	11.55	1,482
District of Columbia	1	100.00	0	0	0	0	100.00	0	991
Florida	67	100.00	0	16.83	54.71	19.35	9.09	0	761
Georgia	188	100.00	39.59	37.34	19.62	2.07	0	1.38	1,302
Hawaii	1	100.00	0	0	0	0	100.00	0	831
Idaho	115	100.00	8.19	53.99	21.77	4.06	0	11.99	1,128
Illinois	1,057	100.00	2.73	14.83	25.51	30.78	18.46	7.71	837
Indiana	304	100.00	5.77	58.24	30.81	4.83	0.34	0	1,106
Iowa	451	100.00	0	2.18	44.67	48.86	4.29	0	1,165
Kansas	309	100.00	0.29	9.61	30.59	27.37	15.55	16.58	755
Kentucky	188	100.00	24.25	51.13	21.25	1.36	0	0	918
Louisiana	66	100.00	0	35.21	60.38	4.40	0	0	891
Maine	230	100.00	9.61	42.25	26.88	6.70	12.56	1.98	1,077
Maryland	24	100.00	0	0	54.55	40.91	0	4.55	1,234
Massachusetts	356	100.00	0.28	0.96	26.84	33.70	26.76	11.47	1,005
Michigan	593	100.00	8.15	22.04	40.78	17.11	10.06	1.88	1,150
Minnesota	438	100.00	0	1.01	33.08	48.14	16.81	0.96	694
Mississippi	150	100.00	53.62	45.03	1.35	0	0	0	980
Missouri	576	100.00	12.28	18.62	45.70	20.64	1.95	0.82	869
Montana	650	100.00	34.61	19.19	8.47	30.35	0.94	6.44	958
Nebraska	1,281	100.00	30.56	13.06	26.23	10.17	2.58	17.40	1,151
Nevada	17	100.00	0	0	32.53	39.03	28.44	0	818
New Hampshire	156	100.00	11.07	57.35	23.92	6.86	0.79	0	1,290
New Jersey	579	100.00	6.41	4.98	14.48	24.35	28.37	21.42	974
New Mexico	88	100.00	0.50	35.48	25.62	36.71	1.18	0.50	1,515
New York	734	100.00	2.02	0.90	0.14	10.26	33.10	53.57	924
North Carolina	150	100.00	1.36	39.81	53.45	5.29	0	0	976
North Dakota	336	100.00	3.81	33.56	32.09	14.29	8.13	8.10	818
Ohio	621	100.00	15.36	59.70	18.33	4.05	1.91	0.64	765
Oklahoma	637	100.00	32.56	32.01	21.29	1.64	0.65	11.86	1,034
Oregon	338	100.00	0	3.22	51.13	20.34	19.20	6.11	1,075
Pennsylvania	504	100.00	0.94	4.18	54.09	32.00	5.61	3.18	1,237
Rhode Island	40	100.00	0	0	16.37	64.93	14.03	4.68	721
South Carolina	93	100.00	43.14	53.06	3.79	0	0	0	960
South Dakota	220	100.00	3.61	33.66	37.05	16.16	5.21	4.31	663
Tennessee	146	100.00	60.51	29.41	9.24	.84	0	0	854
Texas	1,120	100.00	17.66	46.08	15.45	9.24	8.80	2.78	1,291
Utah	40	100.00	0	31.53	39.03	2.43	27.01	0	922
Vermont	245	100.00	12.58	31.32	32.35	13.28	4.80	5.68	907
Virginia	134	100.00	.80	43.68	48.27	4.02	0.80	2.41	1,085
Washington	314	100.00	0	7.19	50.61	37.45	0.96	3.79	895
West Virginia	55	100.00	0	52.33	47.67	0	0	0	1,170
Wisconsin	434	100.00	0.51	7.73	35.81	43.92	8.29	3.72	1,291
Wyoming	60	100.00	0	1.48	13.33	35.32	11.55	48.13	1,291

SOURCE: U.S. Department of Health, Education, and Welfare, National Center for Education Statistics, *Education Directory, 1975-76: Public School Systems*, and preliminary data.

1977

Table 6.08.—Percentage distribution of school districts, by current expenditures per pupil: 1974-75

State	Under \$700	\$700 to \$899	\$900 to \$1,099	\$1,100 to \$1,299	\$1,300 to \$1,499	\$1,500 to \$1,799	\$1,800 to \$1,999	\$2,000 and over	Median expenditure
Alabama	68.1	30.0	1.9	—	—	—	—	—	5,663
Alaska	—	—	—	—	—	—	—	—	2,345
Arizona	—	35.4	14.7	28.1	2.7	14.1	14.1	71.8	1,099
Arkansas	46.6	40.8	9.3	3.2	—	—	—	0.4	722
California	—	11.7	29.7	26.7	15.0	9.2	2.2	5.4	1,163
Colorado	—	12.6	18.6	24.1	23.7	6.9	5.6	8.5	1,261
Connecticut	—	4.2	25.0	39.6	19.4	11.1	0.7	—	1,228
Delaware	—	3.8	50.0	34.6	3.8	3.8	3.8	—	1,078
District of Columbia	—	—	—	—	—	100.0	—	—	1,552
Florida	—	1.4	41.5	44.3	11.8	—	—	—	1,116
Georgia	—	—	—	—	—	—	—	—	801
Hawaii	5.7	77.9	12.3	4.1	—	—	—	—	1,106
Idaho	—	—	—	100.0	—	—	—	—	997
Illinois	—	30.4	52.0	13.7	3.9	—	—	—	1,080
Indiana	—	14.9	31.6	28.8	11.6	7.3	0.5	0.4	859
Iowa	1.4	61.4	34.1	2.8	0.3	—	—	—	1,054
Kansas	—	1.1	72.9	26.0	—	—	—	—	1,213
Kentucky	0.3	5.4	30.0	27.4	14.4	31.0	1.5	—	675
Louisiana	55.9	32.0	4.3	7.7	—	—	—	—	895
Maine	1.4	49.8	37.6	11.3	—	—	—	—	855
Maryland	11.4	51.9	21.4	3.7	11.6	—	—	—	1,126
Massachusetts	—	4.2	20.8	62.5	8.3	4.2	—	—	1,219
Michigan	—	2.0	23.6	50.9	13.8	5.8	2.6	1.4	1,082
Minnesota	—	9.9	39.7	22.7	10.5	16.4	0.8	0.2	1,211
Mississippi	—	1.0	17.6	44.5	28.6	8.1	—	—	704
Missouri	46.6	52.0	1.4	—	—	—	—	0.2	968
Montana	5.6	24.5	42.4	25.7	1.4	—	—	—	1,265
Nebraska	2.0	22.0	8.0	30.4	11.8	12.8	7.1	6.0	1,024
Nevada	15.6	22.7	22.6	9.3	10.2	7.1	4.3	8.1	1,140
New Hampshire	—	—	32.5	39.0	28.4	—	—	—	887
New Jersey	—	52.5	25.0	14.8	6.0	—	—	—	1,359
New Mexico	0.2	6.4	19.9	23.9	18.7	25.9	2.0	3.0	1,109
New York	—	20.2	30.2	12.0	14.8	22.7	—	—	1,650
North Carolina	—	—	—	4.5	14.6	47.4	9.0	24.6	914
North Dakota	—	40.8	55.6	3.5	—	—	—	—	1,026
Ohio	8.6	11.0	45.4	26.3	5.8	2.9	—	—	840
Oklahoma	4.8	55.9	29.3	5.6	2.6	1.0	0.2	0.5	802
Oregon	2.19.7	45.0	14.1	7.7	0.6	1.8	11.0	—	1,295
Pennsylvania	—	3.2	27.5	19.8	37.4	11.4	0.7	—	1,046
Rhode Island	—	2.6	56.2	30.4	7.2	2.6	0.9	—	1,235
South Carolina	—	11.7	59.8	23.9	4.7	—	—	—	714
South Dakota	45.1	52.2	2.5	—	—	—	—	—	998
Tennessee	0.4	16.0	51.6	16.0	11.0	2.7	—	—	866
Texas	66.4	22.7	8.4	1.7	0.8	—	—	2.3	895
Utah	10.1	44.8	25.2	4.2	7.5	8.3	0.1	—	1,032
Vermont	—	29.1	32.5	11.4	27.0	—	—	—	986
Virginia	5.4	22.0	43.6	12.2	10.8	3.4	2.4	—	854
Washington	—	71.5	20.5	5.6	—	0.8	1.6	—	1,174
West Virginia	—	3.4	13.1	59.7	19.4	1.3	3.2	—	858
Wisconsin	3.4	57.4	39.2	—	—	—	—	—	1,205
Wyoming	—	0.9	24.8	50.3	15.9	6.5	1.5	—	1,383
Wyoming	—	—	29.5	23.0	13.1	21.3	1.6	11.5	1,383

SOURCE: U.S. Department of Health, Education, and Welfare, National Center for Education Statistics, Education Directory, 1974-75. Public School Systems, and preliminary data.

PART 13: SCHOOL FINANCE ACT OF 1977 AND EQUALIZATION EFFORTS

THURSDAY, SEPTEMBER 29, 1977

**HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ELEMENTARY, SECONDARY,
AND VOCATIONAL EDUCATION,
COMMITTEE ON EDUCATION AND LABOR,
Washington, D.C.**

The subcommittee met, pursuant to notice at 9:30 a.m., in room 2175, Rayburn House Office Building, Hon. Carl D. Perkins (chairman), presiding.

Members present: Representatives Perkins, Mottl, Le Fante, and Quie.

Staff present: John F. Jennings, majority counsel; Christopher Cross, minority senior education consultant; Nancy L. Kober, staff assistant; and Ms. Meredith Larson, minority staff member.

Chairman PERKINS. The committee will come to order.

We will start with you, Mr. Jordan, Senior Specialist in Education, Congressional Research Service, Library of Congress.

The subcommittee will come to order and continue the hearings on H.R. 1138, Equalization Efforts.

Go ahead, Mr. Jordan.

STATEMENTS OF DR. JOEL BERKE, DEPUTY ASSISTANT SECRETARY FOR EDUCATION-(POLICY DEVELOPMENT)-DESIGNATE, HEW, ACCOMPANIED BY DR. RAY PETERSON, SPECIAL ASSISTANT TO THE ASSISTANT SECRETARY FOR LEGISLATION, HEW; DR. ALAN GINSBURG, DIRECTOR, ELEMENTARY AND SECONDARY EDUCATION, OFFICE OF ASSISTANT SECRETARY FOR PLANNING AND EVALUATION, HEW; DR. K. FORBIS JORDAN, SENIOR SPECIALIST IN EDUCATION, CONGRESSIONAL RESEARCH SERVICE, LIBRARY OF CONGRESS, AND DR. KENNETH QUINDRY, RESEARCH PROFESSOR, UNIVERSITY OF TENNESSEE

[The prepared statement of Mr. Jordan follows:]

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THE LIBRARY OF CONGRESS
Congressional Research Service

WASHINGTON, D.C. 20540

Statement of
K. Forbis Jordan
Senior Specialist in Education
Education and Public Welfare Division

Before the
Subcommittee on Elementary, Secondary and Vocational Education
Committee on Education and Labor

Thursday, September 29, 1977

Mr. Chairman and Members of the Committee

I am K. Forbis Jordan, Senior Specialist in Education with the Congressional Research Service in the Library of Congress. My role is, as a resource person, to provide information on the subject of equalization of resources for education within States. The guidelines of the Congressional Research Service on objectivity and non-partisanship require that testimony be confined to technical, professional, and non-advocative aspects of the matters under consideration. In the following statement, an attempt has been made to identify some of the major concerns related to equalization in funding for elementary and secondary schools and also to discuss some alternative courses of action for the Congress as it considers the problems of fiscal and educational equalization within the States.

The issue of equalization of educational opportunity among local school districts in a State has been a matter of concern among the States for several decades, and they have made varying degrees of progress in attaining the goal of equalization.

Traditionally, equalization has been of primary interest to advocates for the poor. The issue has received increased attention since the California Supreme Court rendered its ruling in the Serrano case in 1971. The major principle in the original Serrano ruling was that the funding system for the schools must be fiscally neutral -- that the amount of funds available per student should not be dependent upon the wealth in the local school district. The decision did not require equal spending or the replacement of the property tax as a source of support for the

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schools. In a subsequent decision the California Supreme Court has reinforced its earlier ruling.

Concurrent litigation in the Federal courts reached the United States Supreme Court in the Rodriguez case in 1973. The issue was whether or not the provisions of the United States Constitution guaranteed equal access to educational funding per pupil irrespective of the fiscal capacity of the school district in which the pupil resided. In this landmark case the Supreme Court by a 5-4 majority ruled that the matter was not a Federal issue so long as there was a rational basis for the State's funding mechanism for local school operation. In reviewing the Texas system, the court recognized the existing imperfections, but indicated that in that case redress should come through the legislative process or through the State courts rather than the Federal courts.

Prior to the initiation of the fiscal neutrality cases, two Federal cases addressed (1) the matter of differences in the educational needs of pupils, and (2) the issue of whether or not the State must alter its school support program to recognize the differences in the educational programs that should be provided to pupils from culturally deprived homes or pupils who require special educational programs. These cases have been referred to as the "educational needs cases" because the contention was that the State should allocate different amounts of funds on the basis of the educational needs of pupils. In neither instance did the courts reject the contention that pupils

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have different educational needs that might require different levels of funding, but they refused to require such action because of the absence of judicially manageable standards.

The concept of equalization assumes that funds will be allocated from one level of government to another in a manner that will reduce the disparity in available revenues per pupil, resulting in a relative equalization of programs and services being available for all pupils. Some have oversimplified the concept as meaning equal dollars per pupil; however, as educational programs have become more complex and as the percentage of State and local funds included under "equalization" has increased, observers have recognized that "one dollar/one scholar" does not provide a sound funding approach. Designing a truly equitable funding program is quite difficult because of differences in the educational requirements of the pupils and cost/price differences among local school districts. However, no State has enacted the "perfect" State school support program; no State has achieved the dual altruistic goals of equalization of fiscal ability (fiscal neutrality) and equalization of educational opportunity.

New Mexico has possibly come closest to attainment of the goals of fiscal neutrality and equalization of educational opportunity through its curtailment of local district taxing authority, weighted pupil approach, and adjustments for sparsity of population. Maine also has come close to attaining the goal of fiscal neutrality through the recapture clause that requires local districts to pay the State that portion of the local tax yield that exceeds a specified level.

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however, even in those two States, as well as in others, questions remain concerning problems related to intrastate differences in required levels of expenditure for equivalent educational programs and services and intradistrict allocations to local schools.

Operational Definitions of Equalization

Various operational definitions may be developed for equalization, depending upon the desired level of precision and the prevailing public policy goals. In making those determinations, questions such as the following merit consideration:

Is the intent to achieve equal spending per pupil in all school districts in each State or in all school districts in the Nation irrespective of:

- variations in educational programs that may be dictated by differing percentages of pupils who have various psychological, physical, emotional, or cultural conditions or occupational aspirations?
- variations in the cost of delivering equivalent educational programs and services that are attributable to differences in the prices of goods and services among local school districts or to variations in sparsity or density of population and/or enrollment among districts?
- variations in the level of aspirations that local citizens may have for their schools?

Is the intent to level the low spending districts up to the level of the high spending districts, to level the high spending districts down to that of the low spending districts, or to move all districts to the median expenditure level?

Is the intent to permit the level of effort or tax rate in each local school district to determine the amount of State and local funds that will be available to support local educational programs?

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Is the intent to provide equalized support for a "basic educational program" with the local school districts being permitted to supplement that basic educational program with additional local funds?

Is the intent to reduce the school support burden assumed by the local property tax and shift that burden to the State or Federal level and to another type of tax?

Is the intent to slow the growth rate of educational spending by the use of expenditure limits or tax rate ceilings?

This series of equalization-oriented questions illustrates the complexity of the concept, the variety of items that must be considered, and the necessity for specifying criteria that are to be considered in developing the operational definitions. A commonly accepted definition of equalization has not been developed. Before a definition can be stated, the question of "equal in terms of what" must be answered? Equalization may be in terms of:

Equal spending per pupil,

Equal access to educational programs,

Equal access to funds per unit of tax rate or effort for education, or

Equal access to funds per unit of tax rate or effort for all government services.

If equalization is viewed as equal spending per pupil, the result may be no increase in funds or even a decrease in some of the high-spending districts. This leveling effect in educational expenditures per pupil may make some citizens reluctant to support legislative proposals for additional funds for education if their school district

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will not benefit. In addition, local districts may have to curtail educational programs and services to offset the rising costs attributable to inflation, increased energy bills, and uncontrollable increases related to supplies, salary increments, and fringe benefits.

In such States as Colorado, Florida, Indiana, Iowa, Minnesota, Montana, New Mexico, and Washington, this possible curtailing of expenditures has become a reality through State legislative action that has restricted or eliminated the local option to increase revenues. Few would question that the option of local citizens to determine the level of educational spending in their district has contributed to unequal spending per pupil, but the long term implications of restricting or denying this privilege are not known.

Problems related to expenditure limits have been increased by enrollment declines in some districts. When losing enrollment, districts often find that they must increase educational services to provide an adequate educational program for the remaining students. The dilemma is further enhanced for those districts confronted with increased costs for education even though they are in a "spending freeze," for the unit costs of instruction are rising because of inflation and higher energy costs. The teaching staff is stable and moving higher on the salary schedule because of additional training and longevity. This combination of events has the net effect of imposing a decline in available funds for the educational program.

Elements in Equalization

In actual operation, equalization can be achieved in a variety of ways. The fundamental point is that the combined funds from State and

local sources should be based on the educational program requirements of the local school district.

Irrespective of the title that may be given to the State school support program, a simplified statement of a type of equalization formula is:

(Educational Need) minus (Required Local Effort) equals (State Aid)

Educational Need. This component of the formula may be a "fixed value" per pupil or unit of distribution or may be a "flexible value" determined by local conditions or choices. Under the "fixed value" alternative an equal amount is provided per distribution unit from State and local sources. The level of funding is determined by multiplying the number of pupils times the funding amount; the required local effort is determined, and the State allocates the additional funds required to provide the specified number of dollars. Most of the State school support programs enacted in the 1950's and 1960's contained provisions that guaranteed a uniform minimum amount per pupil, teacher, or classroom unit when the local school district had levied a specified tax rate. The State then supplied the difference between the cost of the State recognized program and local district revenues from the qualifying tax rate.

The "fixed value" approach appears to provide for equity; however, two issues are ignored. First, this method assumes that equal dollars per pupil will result in the provision of an adequate program for all pupils. This position is contrary to the general agreement that the mental, physical, or emotional conditions or occupational aspirations of certain pupils dictate that they should be provided with different

educational programs of varying costs, and that those pupils are not uniformly distributed among local school districts. Unless the fixed value program is modified, each local district is treated in the same manner and the result is equal funding for unequal pupils.

Second, the fixed value program does not provide for State financial participation when local school districts exercise the option of making additional effort beyond that stated in the fixed value program. Districts with a high level of per pupil wealth historically have exercised this "leeway" option and have been able to provide additional funds with a relatively low level of additional effort. However, the district with a low level of per pupil wealth does not have the taxing power to supplement its program in the same fashion as its more wealthy counterparts. The level of funding for local school programs would still be dependent upon the taxable wealth of the child's parents and neighbors, and the agricultural, commercial, and industrial property of the school district.

The "flexible value" option may be operationalized in a variety of ways; one alternative would be that a varying amount per pupil would be provided based upon the level of tax effort being made in the local district and/or some measure of educational need as indicated by the types of educational programs required to serve the concentration of pupils in the local district. Under a guaranteed yield approach,* the local adjusted tax rate is the normal measure of effort.

*In the literature, this approach is also called district power equalization and resource equalizer.

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The actual tax rate is adjusted to reflect the differences in levels of assessment among the school districts. This adjusted rate then is used as the indicator of effort and the district is guaranteed a specific amount of funds from local and State sources for each unit of effort. In the following example, it is assumed that the State program guarantees local districts \$80 per pupil of tax levy up to a maximum of 20 mills.

District	Adjusted Millage Rate	Wealth Per Pupil	Tax Yield Per Pupil	Guaranteed Yield Per Pupil	State Payment Per Pupil
"A"	20	\$40,000	\$800	\$1600	\$800
"B"	15	\$60,000	\$900	\$1200	\$300
"C"	10	\$40,000	\$400	\$800	\$400
"D"	12	\$90,000	\$1080	\$960	--

As illustrated above, the amount of State aid is determined by both the tax rate and the wealth per pupil. For example, Districts "A" and "C" have the same wealth per pupil, but are levying different tax rates and therefore receive different amounts of State aid based upon the differences in their tax rates.

Examples of this type of State school support program may be found in such diverse States as Colorado, Illinois, Maine, Montana, Ohio, and Wisconsin. If the local district levies a specific tax rate, the State will provide the difference between a guaranteed amount per pupil and the amount that should be received through the local tax levy. For

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this type of program to provide the ultimate in fiscal equalization, the State would "recapture" any local tax yield in excess of the guaranteed amount, i.e., funds generated by the tax rate in the wealthy districts in excess of the guaranteed amount are forwarded to the State for redistribution to those districts whose tax receipts are less than the guarantee for their tax rate. This approach is not common among the States, for Maine and Montana are the only States that have an operational recapture program. The recapture approach was to have taken effect in Wisconsin, but the courts disallowed the practice on the grounds that the State was confiscating the yield of a local tax. The issue is in the courts in Maine, but has been resolved in Montana because the tax rate is levied at the county level and was established at a fixed rate by legislative action.

A second variation of the "flexible value" choice is the weighted pupil approach; this method of school funding is not new, for it first was advocated by Paul Mort of Columbia University in the 1920's. Under this alternative, funds are distributed on the basis of a cost index for the type of educational program in which the pupil is participating. The underlying assumption is that the attainment of equality of educational opportunity requires that varying amounts of funds be spent on different educational programs. For example, few would question that an adequate program for a blind pupil will cost more than an adequate program for a sighted pupil. Various types of programs for other handicapped pupils also have a higher cost per pupil. The same position can be taken for vocational programs.

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Under the weighted pupil approach, a weight or an index is assigned to each pupil in a particular program. This index provides different levels of funding based on an estimate of the revenue requirements for the particular educational program. Rather than expressing the educational funding needs of a local school district in terms of a number of actual pupils, pupils are assigned weights indicating the cost index of the program in which they are participating, and these weights are then summed to determine the number of weighted units of need in the district. The following sample weights are provided for illustrative purposes:

<u>Program</u>	<u>Weight</u>
Kindergarten	1.30
Basic elementary	1.00
Junior high/middle	1.15
Senior high	1.25
Vocational	1.80
Visually handicapped	5.00
Multiple handicapped	4.00

The portion of the school day or week that the pupil spends in a particular program is then multiplied by the weight to determine the weighted value of the pupil for purposes of the State school support program. An example of the computation process would be:

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one half day in a program for visually handicapped	$1/2 \times 5.00 = 2.50$
one half day in a basic elementary program	$1/2 \times 1.00 = .50$
Weight generated by the pupil	3.00

If the State program provided \$1000 per weighted pupil from State and local funds, the allocation for this pupil would be \$3000. The district's entitlement would be the number of weighted pupils times the dollar value of the weighted pupil specified in the State school support program.

Other examples of the "flexible values" include cost-of-living adjustments for local school districts, formula indices related to the sparsity or density of the pupil population, multipliers based on the level of training and experience of the school district's teaching staff, and a municipal overburden adjustment for high tax/high service urban areas. The cost of living factors have a high level of appeal because of the existence of variations in expenditure levels per pupil among school districts within a State. One of the unresolved questions related to cost of living is whether or not the variation is related to differences that are within the control of the local school district authorities. For example, the general pattern of wages in a school district may dictate that the district pay higher wages than other school districts to compete for personnel. In other instances, the district may be in a favorable financial status and may be spending more per pupil because of tradition and affluence rather than necessity. In the latter case, the cost-of-living adjustment would perpetuate the inequity in funding per student.

Sparsity and density of the pupil population do have some impact on the programs and services required in local school districts. The sparsely populated district providing transportation and a comprehensive educational program for a limited number of pupils will require more funds for the program than will a district with a sufficient number of pupils for the transportation and instructional programs to be more cost-efficient.

Inclusion of a weighting factor that adjusts the local school district's entitlement in terms of the level of the training and experience of the teaching staff was very popular during the 1950's and 1960's as a means of encouraging the employment and retention of teaching staffs with high levels of training and experience. The concept declined in popularity with the advent of a glutted teacher market and active concern over teacher militancy; however, some support is emerging for reviving the multiplier because of stable or declining pupil enrollments. The mobility of teaching staffs has declined and contract provisions are providing job protection; the net result is that staffs are advancing on the salary schedule and the cost of each teacher is increasing in those stable enrollment districts. Because of State statutes, local school districts find themselves with a teaching staff that is costing more each year because of the lack of attrition. This matter becomes especially critical when expenditure controls are imposed and the costs of inflation consume most of the permitted expenditure increases, leaving the district with little choice but to reduce staff and educational programs and services in order to maintain a balanced budget.

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The interest in municipal overburden is a recent development in State school support programs. The early interest in equalization was related to efforts to assure that pupils in poor rural areas had access to adequately funded educational programs. States enacted school finance programs that were designed to assure that a minimum level of educational funding was provided for all pupils in the State. Through this period the cities were spending more than the rural areas, were viewed as more favored, and were generally considered to have exemplary school programs.

During the 1960's and 1970's, conditions have changed to the point that some cities now have severe fiscal problems in financing governmental services. One reason for this development is that the cities provide a broader group of governmental programs and services than rural or suburban areas. Police protection is more extensive, fire protection is provided by full-time employees rather than volunteers, streets are maintained at a higher level, and concentrations of low-income persons have increased the welfare burden assumed by urban areas. This combination of events is referred to as municipal overburden. Even though there is general recognition of the existence of the phenomenon, there is no general agreement on the action that should be taken to provide relief. Some policy makers would modify the State school support program to provide additional State funds to urban school districts with a high total property tax rate even though the tax rate and per pupil expenditures for educational programs might not be as high as one would find in a nonurban school

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district. Others contend that the municipal tax burden problem is broader than education and that it is inappropriate to modify the educational funding program to correct this problem.

The concept of municipal overburden is quite complex and questions may be raised relative to the degree that decisions concerning municipal services are locally "controllable." Some analysts have questioned the merits of adjusting the computational process of the State school support program so that a district might receive additional funds for education because of a high level of expenditures for public services other than education.

Required Local Effort. The previous discussion has focused on the first component of an equalization program, educational need. The second component, required local effort, is either (1) the product of the State prescribed or locally determined tax rate times the local wealth or (2) the amount of local funds that the State indicates is to be raised by local school districts on the basis of the district's share of the State's wealth. In both instances the assumption is that uniform practices are used in determining local wealth throughout the State.

In virtually all States except Hawaii, which has no local school districts, some expression of the assessed value of real property provides all or a major portion of the measure of local school district fiscal capacity. Property tax assessment practices vary within and among taxing jurisdictions to such a degree that the assessed value provides only a rough estimate of fiscal ability. In States in which

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no effort is made to adjust or equalize for different levels of assessment at the local level, local school districts may find themselves being treated unequally because of differences in assessment practices. This situation can only be corrected when the State reviews and "adjusts" or "equalizes" the locally determined property values to make them comparable among local school districts within the State. This action is necessary to prevent a district from receiving a "windfall" or "shortfall" in State aid because of its assessment practices. The intent is to assure that the distribution system does not provide an incentive for under-assessing property.

Currently among the States, there is considerable interest in revising the measure of local ability to pay so that personal income is included with the assessed value of real property in determining a local school district's relative wealth position. For several years, Kansas, Rhode Island, and Virginia have used a wealth measure that includes income, and additional States such as Missouri and Pennsylvania are studying the operational implications of including income in the determination of a local school district's relative wealth position. Traditionally, the incorporation of income into the wealth measure has been rejected because the school district could not tax the measure of wealth at the local level. Recently, opposition to this approach has declined with the increase in the percentage of school revenues coming from State sources, the mounting pressures for property tax relief, and the acceptance of the wealth measures in those States that have included income in the calculation of the district's fiscal capacity.

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Expenditure Variations Within Selected States in 1975-76

Despite the school finance reform efforts of the 1970's, expenditure disparities still exist in what would be termed the "school finance reform States." In some instances States that have made little effort to revise their programs have high-to-low variations in per pupil expenditures that are rather similar to what is found in the "reform States." In the following table selected States have been listed with the highest and lowest per pupil expenditures for current operations in the local educational agencies and the ratio of the high to the low amount. (Interstate comparisons should not be made from the data, for each State does not include the same expenditure items in arriving at these amounts.) All of these States should not be classified as "reform States," as some have recently enacted significant equalization-oriented legislation and others have made only limited changes in their State school support programs in recent years.

Range in 1975-76 Expenditures Per Pupil for Current Operations
Within Selected States

State	Highest Expenditure	Lowest Expenditure	Ratio
Colorado	\$5,063	\$1,192	4.25-1
Florida	1,381	935	1.47-1
Illinois	3,320	632	5.24-1
Indiana	1,766	673	2.62-1
Kansas	3,463	734	4.72-1
Kentucky	1,368	571	2.40-1
Minnesota	1,921	732	2.62-1
New Mexico	1,737	847	2.05-1
New York	4,394	923	4.65-1
Texas	7,000	530	13.21-1

Source: Telephone Survey of the State educational agencies in the indicated States.

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From the data listed above, considerable disparities in expenditures per pupil for current operation appear to exist within the selected States. The two States with the smallest ratios (Florida and New Mexico) are normally included in any list of reform States, and their programs include restrictions on local tax rates and a heavy reliance on State revenues. Both Florida and New Mexico have weighted pupil foundation programs.

New Mexico LEAs are not permitted to have a tax levy above the rate required to participate in the State school support program. Of the eight mills that LEAs are permitted to levy in Florida, the receipts from over six mills are used as the local share in the calculation of the State equalization program, leaving less than two mills as local leeway which may be used to supplement the program guaranteed by the State.

In determining the degree of equalization in a State, some have advocated that the extremes in high and low expenditures be rejected. The data are considered to be spurious. One problem with this position is that the public policy choice excludes a group of pupils from consideration in the equity determination. The data in the table above include all of the school districts in each State. The rationale for this choice was that the State has an equal responsibility to each child in the State irrespective of the district of residence and the high and low spending characteristics of that district.

If the extremes are eliminated from the distribution, the ratios will be lower. For example, the ratio for the districts in Illinois was approximately 1.60-1 when one considers only the districts between the 10th and 90th percentiles. For New York the similar ratio was approximately

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1.90-1. Similar data were not readily available for the other States in the sample.

As shown in the earlier table, considerable expenditure disparities in all likelihood exist among LEAs in States. Given the differences in the organization for education among the States and the decentralized governance structure that has a long tradition of local determination of the spending levels for education, some might question whether the public policy goal of equalization in educational spending is attainable. The end result may be a reduction in disparities and also a reduction in the power of local school officials to determine the level of educational spending that will be provided in the locality.

Alternatives

The complexity of the concept of equalization has been addressed earlier in this paper, and the equalization questions on pages four and five may merit attention in deliberations over possible legislation. In the following discussion, first attention will be given to a brief review of H.R. 1138. Following this discussion mention will be made of a possible grant consolidation that could be used to increase the flexibility for States and also retain those priorities that the Congress seeks to have addressed by the States. The third section will consist of a series of legislative options that the Congress might enact to encourage the States and to raise the level of potential technical support and public awareness of the range of issues related to equalization.

H.R. 1138. This legislation is designed:

...to assist the States and local educational agencies in providing educational programs of

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high quality in elementary and secondary schools and to assist the States in equalizing educational opportunity,..."

Title I of the proposed legislation has as its purpose to provide financial assistance to the States and to local educational agencies to assure that their resources when supplemented with this Federal assistance will be adequate to provide all children an elementary and secondary education of high quality. The authorization would extend from FY 1978 through FY 1982. Each local educational agency would be entitled to \$100 for every child in average daily membership in elementary and secondary schools in the LEA, reduced by the percentage that its non-Federal per pupil expenditure exceeds 115 percent of the State average per pupil expenditure. Each LEA is to submit an application that contains an assessment of the educational needs of the children, an evaluation of the effectiveness of the programs funded under this title during the preceding year, and various assurances related to funds for children in nonpublic schools and to an agreement that the Federal funds will be used to supplement the current level of funding.

Title II of the proposed legislation indicates that the Federal Government has an obligation to assist the States in equalizing the resources available within the States so that an opportunity to obtain an education appropriate to individual needs will be available to all children regardless of their place of residence within the State. The purpose of this title is to provide funds to the States to assist in equalizing educational opportunity. Under the provisions of the legislation a trust fund would be created to receive appropriations and to

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disburse the payments to the States. The amount of the equalization grants per pupil in the State would be as follows:

1. \$200 for the first fiscal year that the State participates
2. \$300 for the second fiscal year
3. \$400 for the third fiscal year
4. \$500 for the fourth fiscal year
5. \$600 for each succeeding fiscal year.

Within five years of the date of the application for funds under Title II of this proposal, the State must achieve the following:

- a. An educational program in which the quality of the child's education is not the result of the wealth of the school district but rather the wealth of the State as a whole
- b. An expenditure disparity of less than 10 percent between any 2 LEA's in the State after recognition of differences in educational need among pupils and differences in costs among school districts.

Within this context the following analysis of H.R. 1138 has been prepared. The analysis has been organized around the following major points:

1. Intrastate equalization
2. Interstate equalization
3. Balance of State and Federal interests
4. Administrative requirements
5. Fiscal requirements.

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Intrastate equalization. In contrast to other Federal funding programs most of which ignore or conflict with State efforts to equalize educational funding, this proposed legislation provides States with the opportunity to reduce expenditure disparities through Title I of the legislation or to devise a blend of State and Federal funds to achieve equalization in funding for LEAs through Title II.

Interstate equalization. The proposed legislation does not seek to address interstate disparities in educational expenditures in a direct fashion. For example, a uniform amount is provided for each State. Initially, this approach may appear to ignore both the above-average-effort States* and the high-cost-of-education States, but one advantage of a uniform amount is that both issues may be recognized because those States that provide above-average-effort for elementary and secondary education are usually not the States whose expenditures per pupil are above the national average. Consequently, the uniform amount per pupil represents a middle position that in a limited way accommodates the interests of both groups.

Balance of State and Federal interests. Opportunity would remain for the Federal Government to mandate that the State plan address certain prescribed national priorities, but the State would have the option of addressing those priorities in alternative ways that would facilitate the maximum integration of funds in the support for local educational programs.

*refers to those States that are spending a higher than national-average percent of their per capita personal income for public elementary and secondary education.

(The assumption in the previous discussion is that States would have opportunities to develop a State plan that would facilitate achievement of the goal of equalization of access to educational programs and fiscal resources in funding local school district educational programs.)

Administrative requirements. Given the experience with the Elementary and Secondary Education Act, which has contributed to the adoption of uniform fiscal accounting procedures among the States and given the requirements for per pupil expenditure data by LEA in this legislation, it would appear that a uniform fiscal and pupil accounting system among the States might be an outgrowth of the legislation. Some common base of information will be required to assure that decisions about funding and the amount of the allocation to each State and LEA are based on comparable data. (Of course, it is possible that provisions and procedures for sub-State allocations could be reserved for the State plan rather than being a concern of USOE.) In any event, information concerning the expenditures per pupil in each LEA in the Nation will be required; such data are currently collected in each State, but the reporting formats are not consistent.

The legislative reference to "school districts with greater costs" is indefinite and would require interpretation before an operational definition could be devised. Some have found difficulty in determining if greater costs are attributable to noncontrollable factors, to the "high cost of living," or the "cost of high living." Given the opportunity and the resources that permitted a choice, many LEAs have opted to spend more as an expression of the traditional governance structure of American public education.

The provision in the proposed legislation referring to "objective measurements of educational achievement of programs" would appear to require an assessment program and suggests that an observable impact is expected from specific programs funded under the legislation during the previous year. The implication is that the funds under Title I of the proposed legislation are to be targeted on specific programs rather than general aid.

Nonpublic school pupils are to be provided services, materials, and equipment through the legislation. Efforts to implement this provision might encounter problems in those States whose constitution prohibits aid to nonpublic schools. Problems similar to those encountered with existing bypass procedures with the Elementary and Secondary Education Act might continue with this legislation.

Fiscal requirements. Because the legislation will require data on a State-by-State basis and on a local district basis within States, precise projections of the fiscal requirements of the legislation are not possible. Under Title I of the proposed legislation, the base amount of \$100 is to be reduced by the amount that an LEA's non-Federal per pupil expenditure exceeds 115 percent of the State average per pupil expenditure. Data are not currently available that would provide the basis for this determination.

The expenditure disparity information discussed previously indicates the wide range that is found within States. Data from Illinois suggest that 30 percent of the pupils might be in LEAs that are spending 15 percent more than the State average expenditure per pupil. An additional potential problem is that some States might elect to participate in Title I

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and others might elect to participate in Title II, making the authorization estimates of the legislation very difficult to determine.

Title II of the proposed legislation provides that, upon approval of a State's application for a grant, payments shall be made for each child in the elementary and secondary schools in the amount of \$200 for the first fiscal year that the State participates, increasing incrementally to \$600 for the fifth and each succeeding fiscal year. Assuming 50 million elementary and secondary schoolchildren in the Nation and assuming that all States would seek to participate in Title II of the proposed legislation, the required level of funding would be approximately \$10 billion for the first fiscal year and would have the potential of increasing to approximately \$30 billion.

A concern with Title II is related to the possible courses of Federal action in the event that a State did not attain the level of fiscal equalization that had been outlined in the State plan that was approved before Title II could become applicable to the State. It is possible that a "pay back" of the funds would be required, and this could pose problems because of the years that had elapsed since the grant had first been allocated. A State could submit a plan with the best of intentions, but its capacity to follow the steps outlined in the plan will inevitably be influenced by changing economic conditions and the competition for funds from other governmental programs and services.

Grant consolidation. If the Federal priorities are shifting in the direction of encouraging States to attain greater equalization in their State school support legislation, consideration might be given to a

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grant consolidation program in which several categorical programs would be folded into a consolidated grant that would provide for an allocation to each State. To participate in the program each State would be required to submit a State plan that met the criteria in the legislation and the regulations related to the legislation.

If all the current categorical programs that are funded at less than \$100 million were consolidated into the "equalization grant," the amount of the available funds would be slightly more than \$200 million, but the amount could be increased sharply if such programs as bilingual education, emergency school aid, and the non-military Part B impact aid payments were to be included in the consolidation. The combination of funds from these latter three programs with the previously mentioned amount has the potential of approaching \$1 billion. (In view of the 50 million pupils to be used in the allocation of the funds, this would result in a funding level of only \$20 per child.) In view of the small amount of funds per child, the legislation could provide for a more limited use of the funds, such as requiring the States to use the funds to provide for greater fiscal equalization payments to above average tax effort but below median expenditure school districts.

Equalization Support Incentives. In addition to the two policy options discussed in the previous paragraphs, the Federal Government could consider other approaches that might be taken to assist and encourage the States to move toward higher levels of equalization in fiscal resources and educational programs among the local school districts

in a State. In the following discussion attention will be given to other options.

Technical assistance. As a service for States directly from the USOE or through regional centers throughout the Nation, technical assistance teams could be funded to provide direct support for States in the study of existing State school support programs and in the design of proposed legislation. Such teams could be allied with universities, organizations such as the Education Commission of the States, private agencies, or the regional educational laboratories. Internships could be included as part of the staffing design, thereby providing a "hands-on" training experience for future fiscal planners at the State level. The Ford Foundation has funded this type of program on occasion, and the National Educational Finance Project conducted a two year training program for fiscal planners during the course of its activities.

State grants. Currently, the great majority of the States are engaged in a school finance research effort supported by Section 842 of Public Law 93-380. Continued support at the present funding level may not be required, but a lower level of appropriation to fund projects in a limited number of States could provide continuing impetus for State efforts to bring about increased equalization in educational funding. The total appropriation has been \$13.5 million, a much smaller appropriation could be provided to support continuing school finance research efforts but in a limited number of States.

Dissemination activities. With the quantity of research that is being conducted under Section 842 of Public Law 93-380, it would appear

that one possible "low cost" approach would be to establish a national dissemination center for State school finance. It is possible that initial funding could be provided through Federal funds with a phase-out provision under the assumption that the continuing activities of the center could be supported by the States on an annual subscription basis. Given the level of interest in school finance reform efforts on the part of the State legislatures, governor's offices, State educational agencies, and citizen groups, it would appear as though the interest and support for such an activity would be high.

Evaluation of State finance programs. Either through the USOE or through technical assistance or dissemination centers, State programs could be evaluated on an annual or biennial basis with a published ranking of the States. Even though this activity might appear to be perfunctory, the product might be very valuable to the States, for there is a lack of agreement on some of the complexities of equalization, e.g., fiscal neutrality, equalization, and educational need. Through this activity a continuing dialogue could be maintained with the possible development of common understandings and definitions of some of the complex concepts related to State school support programs.

Mr. JORDAN. Thank you, Mr. Chairman.

I am Forbis Jordan, Senior Specialist in Education with the Congressional Research Service in the Library of Congress.

There are a few caveats which I must give at the opening part of my testimony relative to the guidelines of the Congressional Research on Objectivity and Nonpartisanship. They require that my testimony be confined to technical, professional, and nonadvocative aspects of the matters under consideration.

In my written testimony I have attempted to identify some of the major concerns related to equalization in funding for elementary and secondary schools, and also to discuss some alternative courses of action for the Congress as it considers the problems of fiscal and educational equalization within the State.

The issue of equalization of educational opportunity among local school districts in a State has been a matter of concern among the States for several decades, and they have made varying degrees of progress in attaining the goal of equalization.

Traditionally, equalization has been of primary interest to advocates for the poor. The concept of equalization assumes that funds will be allocated from one level of government to another in a manner that will reduce the disparity in available revenues per pupil, resulting in a relative equalization of programs and services being available for all pupils. Some have oversimplified the concept as meaning equal dollars per pupil; however, as educational programs have become more complex and as the percentage of State and local funds included under equalization has increased, observers have recognized that one dollar/one scholar does not provide a sound funding approach.

Designing a truly equitable funding program is quite difficult because of differences in the educational requirements of the pupils and cost/price differences among local school districts. However, no State has enacted the perfect State school support program; no State has achieved the dual altruistic goals of equalization of fiscal ability, fiscal neutrality, and equalization of educational opportunity.

New Mexico has possibly come closest to attainment of the goals of fiscal neutrality and equalization of educational opportunity through its curtailment of local district taxing authority, weighted pupil approach, and adjustments for sparsity of population.

Maine also has come close to attaining the goal of fiscal neutrality through the recapture clause that requires local districts to pay the State that portion of the local tax yield that exceeds a specified level. However, even in those two States, as well as in others, questions remain concerning problems related to intrastate differences in required levels of expenditure for equivalent educational programs and services and intradistrict allocations to local schools.

Various operational definitions may be developed for equalization, depending upon the desired level of precision and the prevailing public policy goals. In making those determinations, questions such as the following merit consideration:

Is the intent to achieve equal spending per pupil in all school districts in each State or in all school districts in the nation irrespective of:

variations in educational programs that may be dictated by differing percentage of pupils who have various psychological, physical, emotional, or cultural conditions or occupational aspirations?

variations in the cost of delivering equivalent educational programs and services that are attributable to differences in the price of goods and services among local school districts or to variations in sparsity or density of population and/or enrollment among districts?

variations in the level of aspirations that local citizens may have for their schools?

In the school finance reform movement, which has taken place in the last five or seven years, one of the gnawing questions that has confronted State legislators is whether or not the challenge is to level the low spending districts up or to level the high spending districts down, or to level the high spending districts down in a see-saw operation and to move all districts toward a median expenditure level. This is one of those questions which inevitably is ad-

dressed by State legislatures when they enact school reform legislation.

Another kind of question is whether the issue or the intent is to permit the level of effort or tax rate in each school district to determine the amount of local funds. This has been referred to in the literature as the district power equalizer or the guaranteed tax base type of program.

One of the emerging issues in the field of equalization which at the moment probably is best exemplified in the recent litigation in the State of Washington, relates to the basic educational program idea and what the level of the State's responsibility might be.

Another one of the kinds of issues which States have addressed is whether the intent is to reduce the school support burden assumed by the local property tax and shift that burden to the State or Federal level and another type of tax. One of the last ones which has been a part of the action is whether the intent is to slow the growth rate of educational spending by the use of expenditure limits or tax rate ceilings.

In the preparation of the testimony I conducted a telephone survey of ten States to more or less identify the expenditure variations which existed in 1975-1976, this being the most recent data. One of the interesting things about the data which I did gather was that the disparities in expenditures among States that are classified as reform are not necessarily very different in this group of States from what one would find in those States that might be classified as nonreform States. This is included in the testimony and I shall not belabor it.

Recently, though, I had an opportunity to become somewhat acquainted with the program in Tennessee and found some interesting developments. Tennessee is one of those recently designated reform States and the per-pupil value which is contained in the new Tennessee reform is at the level of \$314.50 per pupil. This is the the current estimate of the support level.

The expenditure variation in Tennessee at the moment is from \$600 to \$1700 per pupil. The reason I give this illustration is to show that sometimes in the reform States the level of guaranteed funding per child is significantly lower than what would be a minimal level of expenditures that exists among districts and the State.

To move to a direct analysis of H.R. 1138, in the formal testimony I looked at it in terms of five broad topics.

The first was intrastate equalization, the next was interstate equalization, then a balance of State and Federal interests, the administrative requirements, and lastly the fiscal requirements.

In terms of intrastate equalization, the legislation as currently drafted provides the States with an opportunity to address the concept of equalization within the States. In Title I there is a direct amount of funds per child which is provided; in Title II the provision calls for a five-year plan in which they move toward equalization. The interstate equalization is in essence ignored in the legislation, even though it may be indirectly addressed by virtue of giving the flat grant to each State.

In terms of a balance of State and Federal interests, the opportunity would be provided for the blending of those interests in the

plan that can be submitted by the State as it strives to move toward equalization through identification of Federal priorities and the way in which they intermix with State priorities.

In terms of administrative requirements, one of the questions which does emerge looking at the administrative requirements is the assessment portion of the legislation in terms of the report which is to be submitted relative to the degree that achievement has been made of the program objectives that were identified in the State plan.

Another potential problem with the administrative requirements is the reporting system in terms of comparable data across States. In terms of fiscal requirements, the fiscal requirements of Title I would be somewhat difficult to identify at the moment because of the lack of data on the number of school districts whose spending level exceeds 115 percent of the average State expenditure.

I did examine data from Illinois, and it would appear in that State that approximately 30 percent of the children are in districts where the expenditure level is above 115 percent. In terms of the Title II portion, a fiscal estimate on that title would have to be based on certain assumptions about State participation in the program.

If one assumed that 50 million pupils, all of them in the nation, would be participating in the program, then the automatic first year would be approximately \$10 billion, increasing incrementally for the next 5 years.

In terms of additional items or equalization support incentives which might merit consideration, I have included in the written testimony an identification of about four items which might be classified as low-cost items. One of those would be for the Congress to fund, either through Office of Education or through regional centers throughout the Nation, technical assistance teams which could provide direct support to the States in the study of existing State school support programs in the design of proposed legislation.

Another alternative would be to continue the 842 legislation, section 842 of Public Law 93-380, to provide a smaller level of appropriation, and to focus the research efforts on a limited number of States.

Another option would be dissemination activities of the research in the States through the \$13.5 million program which is currently being conducted of State aid programs. There will be a considerable amount of research which would be gathered, and that information could logically be shared across State boundaries so that we would not have each State rediscovering the wheel.

The last item refers to the evaluation of State-financed programs. One kind of simple and probably ego-shattering or ego-flattering concept would be for the United States Office of Education, or some other agency, to conduct on an annual or biennial basis a published ranking of the States as to how they rank in terms of equalization.

This activity might appear to be perfunctory, but in the final analysis it might be very valuable because, if for no other reason, it would increase the level of communication and in all likelihood bring about a commonality of understanding in terms and words. This would hopefully begin to reduce the current levels of concern

relative to fiscal neutrality, as to what the meaning is of that word, as to what the meaning is of equalization, or what the meaning is of educational need.

Chairman PERKINS. Mr. Jordan, I have to leave just for a few minutes; a couple of questions.

How many States of the Union out of the 50 are really equalized within the State, from your study?

Mr. JORDAN. If one looks at it carefully, you find even though there are about 20 States that have been identified as the finance reform States, when you begin to look at those rather carefully on the basis of the level of equalization in terms of reducing the disparities in expenditures, you find that that number begins to boil down to 10 or 12. In other words, it is significantly fewer than the finance reform States normally on any list.

Chairman PERKINS. If you do not have it in your statement, will you supply for the record the variance in the expenditure per pupil within the various States? The reason I am asking this question is to show the need for equalization.

Can you supply that information?

Mr. JORDAN. Yes, I can.

[The information referred to follows:]



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October 21, 1977

TO: Subcommittee on Elementary, Secondary, and
Vocational Education
Attention: Jack Jennings

FROM: Education and Public Welfare Division

SUBJECT: Supplementary Materials for the Hearing Record of
September 29, 1977

The following material is submitted in response to the request of
Chairman Perkins during the hearings on September 29, 1977.

Ranges in Expenditures Per Pupil Among School Districts
In Reform States

Criteria for identifying "school finance reform States" have not
been well defined, but most lists prepared by various school finance
research groups have included the States listed in the following table.
The highest expenditure refers to highest expenditure per pupil amount
among the State's local school districts and the lowest expenditure to
the lowest amount among the State's school districts. All districts
have been included so that the extremes may be observed. Caution
should be exercised in making comparisons of expenditure levels among
the States because methods of counting pupils and classifying expend-
itures vary significantly among the States.

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Range in 1975-76 Expenditures Per Pupil for Current Operations
Among Local School Districts Within Selected States

State	Highest Expenditure Per Pupil	Lowest Expenditure Per Pupil	Ratio
Arizona			
Elementary	\$2,487	\$ 693	3.59-1
High School	2,106	852	2.47-1
Unit	2,085	898	2.32-1
Colorado	5,063	1,192	4.25-1
Florida	1,381	935	1.47-1
Illinois			
Elementary	2,725	745	3.68-1
High School	4,150	1,167	3.56-1
Unit	2,311	684	3.38-1
Indiana	1,766	673	2.62-1
Iowa	1,942	942	2.06-1
Kansas	3,463	734	4.72-1
Maine	2,268	622	3.65-1
Michigan	2,279	730	3.12-1
Minnesota	1,921	732	2.62-1
Montana			
Elementary	4,900	555	8.83-1
High School	5,733	1,039	5.52-1
New Mexico	1,737	847	2.05-1
North Dakota	2,810	629	4.47-1
Ohio	2,658	763	3.48-1
Utah	2,342	945	2.48-1
Wisconsin	2,127	982	2.17-1

Source: Telephone Survey of State Educational Agencies in the indicated States.

Various reasons may be advanced to explain the range in the ratios among the States, but the contributing factors will differ with each State. In some instances the reason may be related to the geographical

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and population density characteristics of the State, and in others to the prevailing political philosophy as it pertains to local decision options and State control.

In the following discussion brief information is provided about this group of States. In Colorado the State school support program provides additional funds to small school districts and also allocates State funds on the basis of the level of effort being exerted in each local school district. The pattern of reward for effort also exists in Kansas, Michigan, and Ohio, and Wisconsin. Among those States the lowest ratio was 2.17-1 and the highest was 4.72-1. In the other States the base level of support had been prescribed in the legislation, with local school districts being permitted to make additional effort at their discretion. For this latter group of States the lowest ratio was 1.47-1 and the highest was 4.47-1. Illinois and Arizona both have elementary (K-8), high school (9-12), and unit (K-12) school districts, and the expenditure ranges have been provided for each type of school district. Montana has elementary and high school districts. The range in ratios for all Illinois school districts shown in another portion of these hearings was based on weighted adjustments for type of pupil and was higher than any of the ranges for each of three types; this is attributable to the fact that the highest expenditure district was a high school school district and the lowest was an elementary school district.

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Chairman PERKINS. Speaking as an expert in this field, what kind of Federal actions could help States to equalize in your judgment?

What kind of legislation should we enact to help States to equalize?

Mr. JORDAN. There are different kinds of options that are reasonable for the Congress to consider. It depends to one extent upon whether or not the desire is to equalize spending within or among States, which is a policy issue and I could speak to the various ramifications of it, but not necessarily make a recommendation.

In view of the diversity which one finds in the current financing programs among States, there is a basic question as to whether or not it is feasible for the Congress to enact a technically-sound equalization program from this level. In essence, one of the options is to establish a set of criteria and then let the States address that criteria in view of their current state of evolution on equalization. With that set of criteria, each State could present a State plan that would help address the issue—would help them move forward in equalization.

The problem with equalization is that it is a goal which is virtually never attainable because there is not a pure definition for the term.

Chairman PERKINS. What criteria would you recommend, or suggest?

Mr. JORDAN. One criterion would be related to the fiscal disparity which is currently in the impact aid regulations, that would be one alternative. You also have the issue, the interaction between the congressional interest and the State interest, as to what the public policy position is of the State.

If the State's desire is to bring all districts up to an equalization level, the expenditure disparity issue is one that is reasonable and sound. If the State's desire is to recognize the difference in levels of aspiration and effort among States, then you move to the wealth disparity test currently in the impact aid regulations.

So the mixture of those two is desired, rather than an arbitrary choice of one or the other. If we talk about the blend of congressional and State interests in addressing the issue, the arbitrary choice of one or the other will cause conflicts between those levels of government.

Chairman PERKINS. Go ahead.

Mr. JORDAN. I have concluded my statement, Mr. Chairman, and appreciate the opportunity to testify.

Mr. QUIE. I want to ask a couple of questions before we go on to the next witness.

I appreciate the questions that you raised on equalization, beginning on page 4, because I notice in subsequent testimony that in my own State of Minnesota there has been an increase in the disparities rather than a decrease since they changed the law.

I also note that one school district which has severe financial trouble, was once a "lighthouse" school district and attracted teachers because they had a tremendously high pay in relation to other school districts.

Right now all of the teachers virtually are up at that highest level and other schools have younger teachers. I don't necessarily feel

that the teacher's training is better in that one school because they have older teachers who are at the highest level on the payroll. Maybe some of the younger teachers have learned some skills that have enabled them to do well also.

A number of the factors, coupled with the things that you have raised, such as the expectations that the parents might have, the type of students, if they have a high number of handicapped or those with other problems have to be considered.

Have you seen any formula which can take all of those variables into consideration and come up then from that formula with the conclusion that we have equality of educational opportunity in the States?

Mr. JORDAN. There have been formulas that have been identified that address two kinds of issues. One of the issues is that aspiration level which you talked about. The other issue is whether or not the State recognizes that it has a responsibility to assure an adequate level of funding for all children in the State.

If you take the pure district power equalizing concept; then, in essence, the total range of decisions about level of funding will be left to the aspiration level in the community. If you blend the two together and provide for an assurance of an adequate level of funding, this is somewhat like some of the proposals that came out of California early, and a three-stage level of funding.

The first level is what might be called the traditional foundation program in which there is a uniform tax rate in which everyone must participate.

The second level is a guaranteed tax base type operation in the district, an equalizing or guaranteed yield approach as in Wisconsin. On top of the base, you have permission to levy a certain amount and the State participates in that effort; for every mill or every dollar the State guarantees you X amount.

Then the third level in the original California proposal, a local leeway, was unequalized as a third tier. The problem with the third tier is it contributes to greater disequalization. But the second tier meets the test of fiscal neutrality in terms of the allocation of funds, which is one of the kinds of measures that can be used. The first one is where, in essence, you address the adequacy of the level in assuring that all districts have an adequate level of funding.

To digress for a moment, in the early 1970s I had an opportunity to look at data from the State of Louisiana to illustrate the adequacy problem. In the richest parish there was a funding level of \$400 a child that year. On an interval, in the second richest parish there was a funding level of \$1,000 per child.

So the pure incidence of wealth doesn't necessarily mean people are going to provide an adequate level of funding for the children in the community. In this instance it was a peculiarity in which, in essence, there was a local and State abdication of responsibility.

Mr. QUIE. Thank you.

Mr. MOTT. Next we will hear from Dr. Alan Ginsburg, director of Elementary and Secondary Education, Office of the Assistant Secretary for Planning and Evaluation, Department of Health Education, and Welfare.

STATEMENT OF DR. ALAN GINSBURG

Dr. GINSBURG. Mr. Chairman and members of the subcommittee:

I am pleased to have this opportunity to discuss my views on the School Finance Act of 1977 - H.R. 1138. This Act addresses the mounting concern over how elementary and secondary education can be more equitably financed.

A principal aim of the Act is to encourage States to reduce disparities in the educational resources of their local school systems. It is on this aim of equalization that I propose to focus.

In this connection I will draw extensively on the preliminary results of a recent study of school finance reform. Evidence analyzed in this study makes it possible to evaluate the extent of existing disparities in educational expenditures between the districts of a State, the amount of progress toward equalization achieved independently by the States in recent years, and finally, by implication, the need for further initiatives in school finance reform at this time. Estimates of the total cost of achieving specific national equalization goals will also be presented.

In concluding, I will offer a few comments on some questions of policy and strategy raised by H.R. 1138.

Evidence on Need, Progress to Date, and Probable Costs.

The discussion which follows is based on preliminary findings from a collaborative study involving staff from Killalea Associates, the Office of the Assistant Secretary for Planning and Evaluation, and the Office of Education.

This study utilizes 1970 and 1975 expenditures, revenue, and property valuation data for nearly 5,000 districts in order to estimate prevailing levels of within-State disparities, and the extent of reduction in these disparities over the five-year interval.

As of 1975, the prevalence of interdistrict disparities in per pupil expenditures may be summarized as follows:

In 40 States, expenditures in the highest spending districts (pupils at the 95th percentile with respect to spending) exceeded those of the lowest spending districts (pupils at the 5th percentile) by at least 50 percent.

In four States, per pupil expenditures in high-spending districts were more than double those in low-spending districts.

Clearly, much remains to be accomplished. It is possible, however, that the impetus for change already exists. Over the period 1970-1975, 20 States passed school finance reform legislation. Granted, then, that the situation as of 1975 leaves something to be desired, we may nevertheless ask whether it does not represent substantial improvement over 1970.

By and large, the answer is no (Table 1):

Only 15 States show clear evidence of reduced disparities between highest and lowest districts.

In 15 States, relative disparities actually increased between 1970 and 1975.

In 19 States, there is no clear evidence of change with respect to disparities.

Among the 20 States enacting reform legislation between 1970 and 1975 only 8 show evidence of substantial reductions in disparities.

The lack of overall progress does not mean, however, that reform efforts were without effect. On the evidence in Table 1, reform efforts appear to have helped to offset a general trend toward increased disparities. Specifically:

Most of the States where disparities showed substantial increases are nonreform States (by a ratio of 7:1).

Most of the States where disparities were substantially reduced are reform States (by a ratio of 6:3).

The States that reformed were, as a group, those most in need of reform in 1970. By 1975, however, the reform States had reversed the situation, and the non-reform States exhibited the most disparity.

Turning to the question of costs associated with achieving specified levels of within-State equalization (Figure 1) we find that costs increase exponentially as complete equalization is approached:

The cost of leveling up all lower-spending districts to achieve a 40 percent maximum disparity would have been a little over \$2-1/2 billion in 1975.

Leveling up to a 10 percent maximum disparity would have cost more than four times as much, or \$10.4 billion.

Table 2 compares the equalization cost function depicted in Figure 1 with the costs that would have been experienced five years earlier in 1970. Costs are also expressed as a percent of State and local outlays for elementary and secondary education, thus providing an implicit adjustment for rising education costs.

The results of this comparison confirm our earlier conclusion about the lack of relative progress between 1970 and 1975. For all levels of equalization, costs, as a percent of current State and local outlays, have risen. Equalization is now a relatively more expensive proposition, because disparities have increased slightly over the five-year period in question.

Questions of Policy and Strategy Raised by H.R. 1138.

I want to point out that the Department is currently reviewing the available alternative approaches to school finance reform. Neither the Department nor the Administration has considered the question of what role the Federal Government could or should play in assisting the States to achieve reform of school finance.

My comments are intended as expert analysis of the bill and in no way indicate the position of the Department on H.R. 1138.

Let me now turn to some specific considerations raised by this proposed legislation.

The results of our disparity analysis have established a need for the States to equalize educational opportunity. Part I of H.R. 1138 provides a basic grant of \$100 for each child. The grant is reduced by the percentage of non-Federal per pupil expenditures exceeding 115 percent of the State average. Part II establishes equalization grants of up to \$600 per child to States with a five-year plan to guarantee that:

1. The quality of education is a function of the wealth of the State as a whole, not of individual school districts, and,

2. Non-Federal spending (after adjustments for needs and costs) shall not vary across the districts of each State by more than 10 percent.

I shall limit my comments to Part II, the principal component of this bill.

Creating and enforcing generalized criteria for judging whether a State has in place a school finance system that adequately equalizes educational opportunities across its school districts is by no means an easy or straightforward task.

One major consideration in designing school finance reform measures is the problem of achieving a reasonable balance between the standard of equalization that is desired and the added costs engendered by reform.

The simple inescapable fact for State governments is that, in the absence of additional Federal aid, equalization requires new school spending and becomes increasingly costly as disparities in per pupil expenditures are reduced to narrower limits.

A bill such as H.R. 1138 would authorize massive new Federal aid of over \$25 billion; Federal budgeting limits would be likely to reduce actual grants to amounts that are only a small fraction of this authorized amount. The problem then would be to establish realistic standards that achieve a reasonable degree of equalization at a price most States could afford.

On the basis of our analysis of equalization costs, a goal of reducing expenditure disparities to 30 or 40 percent would be a more realistic goal than the 10 percent standard required by H.R. 1138.

Another particularly difficult design problem would be the need to develop standards that strike a proper balance between control and flexibility. On the one hand, standards must be specified well enough to permit their use in identifying or eliminating questionable practices. On the other hand, they must be flexible enough to treat the many different but equally valid State aid formulas in a neutral, even-handed manner.

In this respect, a basic criticism of the expenditure restriction in H.R. 1138 is that it may discriminate against States that have adopted equal revenue yield formulas which allow spending to vary with local preferences for schooling. The fiscal neutrality test contained in section 5(d)(2) of the impact aid legislation offers one possible solution of these difficulties.

Equalization standards—particularly strict ones—could serve a useful purpose by establishing performance goals for States to aim at when they design their school finance programs. The danger, however, is that such standards might be applied inflexibly, with differences of degree between the States giving rise to unreasonable differences of kind in the Federal response.

Clearly, minimum standards could be desirable, provided they are established with a realistic appreciation of the costs involved. Beyond this minimum, however, some recognition should be given to the degree of progress made by States toward the goal of full equalization. The proposed legislation fails to provide this type of graduated incentive.

H.R. 1138 recognizes that differentials in the price of school inputs and the special needs of certain students for higher cost programs are all considerations that should enter into the design of an equitable equalization policy. In particular, center city districts

could be heavy losers under traditional school finance reform proposals that fail to adjust for these special circumstances.

As a practical matter, if H.R. 1138 became law, it would be difficult to penalize State governments for inadequate adjustments. Experts are in considerable disagreement over the methods and even the feasibility of measuring differential needs and costs.

Thus, even with passage of a bill such as H.R. 1138, it might still be left to the Federal Government to deal with cost differentials directly through programs such as Title I, ESEA. In one respect, the bill recognizes this imperative by requiring a \$3 billion appropriation for Title I as a trigger for the equalization grant provision.

In addition to the form of the equalization requirement, the amount of additional compensation to States would be another major consideration, if an equalization initiative were undertaken. Since interdistrict disparities are basically State created, the costs of equalization should be met primarily from the States' own resources. Nonetheless, some Federal incentive to encourage States to adopt appropriate reform measures might be found desirable.

In summary, H.R. 1138 recognizes that gaps remain in the equalization of school finance within the States, and provides one possible approach to filling those gaps. Other approaches should also be considered—approaches that are perhaps less costly and restrictive. In any event, our study indicates that State initiatives alone have not succeeded in eradicating within-State resource disparities.

[The tables follow:]

Table 1: TRENDS WITH RESPECT TO WITHIN-STATE DIFFERENCES IN PER-PUPIL EXPENDITURES FOR ELEMENTARY AND SECONDARY EDUCATION BY OCCURRENCE OF REFORM LEGISLATION, 1970 TO 1975

Changes in inter-district expenditure disparities * -- 1975 as percent of 1970	Reform legislation enacted 1970-1975	No reform legislation between 1970 and 1975	
SUBSTANTIAL DECREASES (90% or less)	ARIZ. 6 KANS. FLA. N.D. IOWA TEXAS	3 R.I. S.D. VT.	9
MODERATE DECREASES (91-95%)	MICH. 3 ILL. N.MEX.	3 MO. TENN. N.H.	6
NO APPRECIABLE CHANGE (96-104%)	CALIF. N.J. CONN. OHIO IND. 8 UTAH MAINE WISC.	ALA. N.C. REV. ARK. PENN. DEL. 11 S.C. LA. W.VA. MISS. OKLA.	19
MODERATE INCREASES (105-109%)	COLO. 2 MONT.	ID. 5 NEBR. KY. ORE. WASH.	7
SUBSTANTIAL INCREASES (110% or more)	MINN. 1	ALASKA N.Y. GA. 7 VA. MD. WYOM. MASS.	8
	20	29	49**

* This categorization of States is based on a simple average of two separate measures of change. For details, see Table 1 of "The Effects of School Finance Reform, 1970 to 1975," Lawrence Brown, Alan Ginsburg, Neil Killalea, and Esther Tron, Department of Health, Education, and Welfare, 1977.

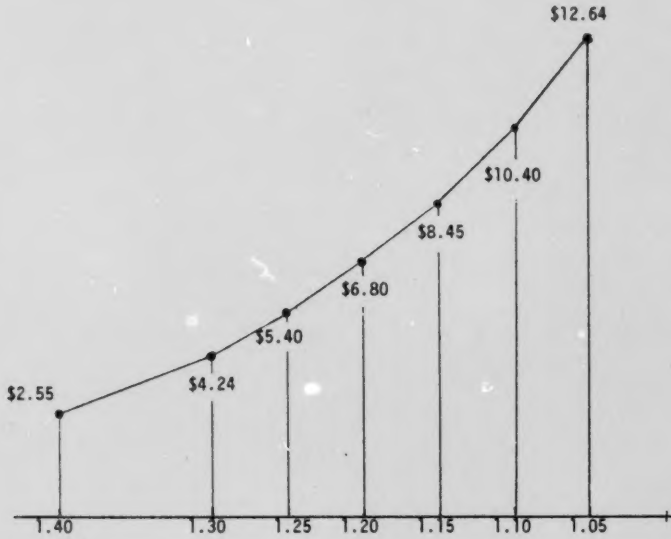
** The State of Hawaii is excluded because 97 percent of total expenditures are State financed.

Table 2: CHANGES BETWEEN 1970 AND 1975 IN THE RELATIVE COSTS OF
ACHIEVING SPECIFIED WITHIN-STATE EQUALIZATION STANDARDS

Equalization Standard-- 95th to 5th Percentile Disparity Ratios:	Total Costs in 1970		Total Costs in 1975	
	In billions of dollars	Relative to total outlays*	In billions of dollars	Relative to total outlays*
1.40.....	\$ 1.26	+ 4.4%	\$ 2.55	+ 5.3%
1.30.....	\$ 2.22	+ 7.7%	\$ 4.24	+ 8.7%
1.25.....	\$ 2.89	+10.0%	\$ 5.40	+11.1%
1.20.....	\$ 3.72	+12.9%	\$ 6.80	+14.0%
1.15.....	\$ 4.76	+16.5%	\$ 8.45	+17.4%
1.10.....	\$ 6.01	+20.8%	\$10.40	+21.4%
1.05.....	\$ 7.42	+25.7%	\$12.64	+26.0%

* Total outlays for elementary and secondary education exclude expenditures supported by Federal categorical programs, but include Impact Aid funds.

Figure 1: TOTAL COST IN 1975 OF REDUCING WITHIN-STATE DISPARITY RATIOS TO SELECTED LEVELS (BILLIONS OF DOLLARS)



Maximum allowable disparity between high and low spending districts within each State (Ratio of per-pupil expenditures at the 95th percentile to those at the 5th percentile).

Mr. MORTL. Thank you, Dr. Ginsburg.

Mr. QUIE. Could I just ask one question before I go up to the Standards of Official Conduct Committee?

Could you give me your ideas about the degree of the importance of prohibiting any kind of discrepancy in costs? You mentioned that if you just had strict standards that there can't be any difference in costs, that perhaps it would harm center cities. You also raised some other questions of opportunities as well for students. I don't understand the degree to which you think removing all discrepancies is important.

Could you address yourself a moment to that?

Dr. GINSBURG. Yes. There are really two parts to that question.

First of all, there are the problems of the center cities and second the general problems of removing disparities across all districts. The center city situation is difficult to deal with through normal school finance mechanisms.

Based upon our analysis, if you look at the center cities particularly in urban States, most of them are at or above their State averages in terms of per pupil expenditures. This would mean we would have to put some type of adjustment mechanism that recognizes their special problems if they are going to benefit from within-State equalization. It may be, indeed, that the best way of aiding cities is through mechanisms such as Title I which targets very heavily and disproportionately on cities, rather than through a school finance measure.

Now with respect to the overall question of how we would look at disparities and what kind of priority we would give to the question of reducing within-State disparity, I guess we have to ask—comparisons against *what*? And I think we have to look at the Title I program—the needs there; we have to look at the handicapped program—the needs in those areas.

We would naturally give the higher priority where we see the larger unmet needs. There are substantial disparities in some States. In 40 States, disparities are over 1.50 to 1, even if we exclude the top and bottom 5 percent of the districts. In a number of States, disparities are over 2 to 1.

I would say if there was new money forthcoming for aid to education that some incentive—some recognition of within-State disparities—would then merit a high priority. So my answer to the question would depend upon the availability of funding.

I would say first, Title I and the handicapped would probably receive a higher priority, but if new money was forthcoming, then, in my opinion, a within-State equalization incentive could serve a useful purpose.

Mr. QUIE. The second question I have, then: To what extent do you think we ought to provide the money just to remove disparities and to what extent should we impose standards that they have to meet, in order to get Federal funds, for example, the standards requirements in P.L. 94-142, the Education of all Handicapped Children Act.

Mr. GINSBURG. First of all, in terms of providing the money, I do think the cost of within-State equalization should primarily be borne by the States. They are the ones who created it. They are the ones who should pay for it.

On the other hand, we should be realistic. A Federal incentive could serve a useful purpose here, if the Federal incentive is based upon performance along the lines of the Handicapped Act. The cost of a moderate reform program to the States would be about \$2.5-4.0 billion. Most of the costs should be borne by the States, but if we were to pay, say a quarter of this cost, I think this would be a significant incentive for the States, to equalize. This would mean a cost to the Federal Government of from \$600 million to \$1 billion.

General aid by itself, without any performance requirements attached to it, I think would be a lower priority.

Mr. QUIE. By performance are you suggesting that services be made available to students who need it, for instance, special education, or by performance do you think we also ought to place some standards on the results of the educational program?

I saw a cartoon the other day of all students going in lock step up the escalator stairway, like the one up to an airplane, and they fell off, not being able to read or write, on the end of it.

Which are you talking about as to performance?

Dr. GINSBURG. I have limited my discussion today to a rather narrow or purely fiscal meaning of performance. I think the question you are raising involves a number of different issues that get into matters of testing, for which I have no special expertise.

Mr. QUIE. Thank you.

Mr. MORTL. Thank you very much, Dr. Ginsburg.

Next here we will hear from Dr. Joel Berke, Deputy Assistant Secretary for Education-(Policy Development)-Designate Department of Health, Education, and Welfare.

STATEMENT OF DR. JOEL BERKE

Dr. BERKE. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I would like to introduce Dr. Ray Peterson, who has accompanied me today. Dr. Peterson is the Special Assistant to the Assistant Secretary for Legislation in HEW.

I am honored to testify before this committee once again. In recent years I have been here in a different capacity to share research with you, and from those exchanges the research conducted by my colleagues and myself has benefited substantially in terms of the focus it has had and the kinds of problems we have attempted to deal with.

What I want to assure you of today is, though I am here in a different capacity as Deputy Assistant Secretary Designate for Education Policy Development in HEW, my interest in assisting the committee remains as strong as it was, and I look forward to benefiting from the cooperative working relationship with the committee in my new responsibilities.

Our topic for the hearings today is the role of the Federal Government in encouraging greater equalization of resources for education within and among States.

Dr. Ginsburg has shared with you the results of a comprehensive study he has just completed and has talked directly to H.R. 1138.

In my testimony, I would like to deal with essentially three questions:

to talk first about whether patterns of school finance in the States still deny equality of educational opportunity despite the progress of the last few years;

secondly, to talk a bit about the relationship of these problems to Federal programs; and,

thirdly, to review Federal policy as it affects school finance reform.

I will summarize my testimony, which I would appreciate having inserted in the record in its entirety.

Mr. MORTL. Without objection it will be inserted, all of your testimony.

[Prepared statement of Dr. Berke follows:]

FOR RELEASE UPON DELIVERY

STATEMENT BY
DR. JOEL S. BERKE
DEPUTY ASSISTANT SECRETARY FOR EDUCATION
(POLICY DEVELOPMENT)-DESIGNATE
EDUCATION DIVISION
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Before the

SUBCOMMITTEE ON ELEMENTARY AND SECONDARY EDUCATION
VOCATIONAL EDUCATION
COMMITTEE ON EDUCATION AND LABOR
U. S. HOUSE OF REPRESENTATIVES

Accompanied by

DR. RAY PETERSON
SPECIAL ASSISTANT TO THE ASSISTANT SECRETARY
FOR LEGISLATION
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SEPTEMBER 29, 1977

Mr. Chairman, Members of the Committee:

I am honored to have your invitation to testify before this Committee once again. In recent years, as director of two research institutes it has been my privilege to share with you and your staff the results of our studies on the financing of education and the operation of Federal education programs and activities. From those exchanges, the quality of our research improved substantially both in identifying important problems and in developing approaches to aid in their solution.

Today, as you know, I am here in a different capacity: Deputy Assistant Secretary for Education (Policy Development)-designate in the Office of the Assistant Secretary for Education in HEW. While my formal position has changed, my interest in assisting this committee remains as high as it was before, and I look forward in my new responsibilities to being able to benefit from a cooperative working relationship with this committee and its staff.

The topic these hearings are concerned with is the role of the Federal government in encouraging greater equalization of resources for education within and among states. Dr. Alan Ginsburg from the Office of the Assistant Secretary for Planning and Evaluation, HEW, will present the results of a comprehensive study he is directing which describes and analyzes information on school finance patterns throughout the nation, and provide comments on H.R. 1138.

Do Patterns of School Finance Still Deny Equality of Education Opportunity?

Since 1973, the nation has made a significant start in overcoming denials of equality of educational opportunity based in the financial structure of American public education. The reform movement in the states has provided a variety of state policy options designed to overcome the disparities in taxable capacity, to encourage greater equality in expenditures for the basic school program, and to focus greater resources on pupils and districts with greater needs. Those options have been adopted and are operating in a number of states. In some of those states, the new laws have provided substantial tax and educational benefits to districts with low tax capacity, and have focused greater resources on pupils with more costly educational needs. But the record is an uneven one in the twenty or so states that have enacted reform. In most cases, the principles of reform have been established, but the application of those principles has often been imperfect.

Two general tendencies work to dilute the impact of reform policies. First, states have tended to superimpose new finance programs on those already existing, to hold all districts harmless, and even to make reform politically palatable by giving some equalization support to all districts - even those that are quite wealthy. Second, states have in many instances underfunded reform legislation, providing a level of funding insufficient to offset the disparities in local tax capacity or to compensate for differences in educational need.

And if these problems still bedevil the 20 or so reform states, the others still function under finance plans that clearly permit the funds available for a child's education to vary throughout the state in proportion to differences in the size of the local tax base and without adequate reflection of varying educational needs. These traditional finance plans have created serious problems for three types of districts: First, there are districts that have low tax capacity to support education, where despite relatively high tax rates, education is still supported at lower than average levels. Often such districts are rural, sometimes they are in blue collar suburbs, and sometimes they are in small towns. Both the absence of substantial taxable property and low proportions of commercial and industrial property in their tax base place such districts at a severe disadvantage in their ability to support education under traditional state finance systems.

A second category of district that suffers from fiscal discrimination includes those with high proportions of pupils requiring costly educational services. Poor children, those who suffer the effects of discrimination, the handicapped, and the non-English speaking are among the pupils who impose high extra costs on both urban and rural districts, costs which are not covered under traditional school finance formulas.

Third, the largest urban districts present a special case. While these districts' capacity to support education under the traditional measure of property value per pupil is frequently above the average for their state, the large demands against their tax base for other municipal

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services make their problems of raising adequate revenues substantial. In addition, the high proportions of pupils with special needs residing in large urban districts, and the high prevailing urban price levels, compound city districts' difficulties. While not all large urban areas exhibit these symptoms, those of the Northeast and Midwest, and some others scattered throughout the nation, are struggling with this multifaceted problem.

Thus, under current state finance policy, despite the existence of a body of knowledge about reforms and a number of examples of real progress, denials of equality of opportunity continue to exist.

Addressing Inequities in State Systems of School Finance

The basic support of public education in the United States is a state responsibility. In turn, states have delegated a substantial share of this responsibility to local school districts. The Federal government has played a limited but strategic role in supplementing state/local funds with categorical program funds designed to meet issues of national importance. Federal programs have not been established according to a comprehensive plan for education, although they do address a comprehensive set of national interests. Most Federal programs can be understood to cluster around three major concerns: increasing educational opportunities for the poor, the victims of discrimination, and most recently the handicapped; improving the quality of education through research, demonstration, and dissemination; and meeting selected national priorities such as vocational and manpower training.

The first of these broad clusters encompasses the bulk of Federal aid. The Congress and succeeding Administrations have established a consistent policy of identifying groups of students whose needs have not been adequately met under state/local efforts alone, and have provided Federal support to supplement those efforts and/or have provided incentives to encourage greater state concern in the area.

Inequitable funding patterns within states have direct impact on the effectiveness of many existing Federal aid programs. Title I of ESEA, for example, is intended to focus additional resources on children of parents living in poverty. While we at the Federal level are focusing funds in greatest proportion to poor rural and large urban districts with high concentrations of eligible pupils, state/local finance systems often provide the lowest level of support to rural areas and fail to recognize the special cost factors associated with urban school funding. Thus the basic school program available in such jurisdictions may be relatively underfunded.

The Rodriguez case underlined the issue. While a narrow majority of the Supreme Court held in that case that interdistrict disparities in school finance systems did not represent a violation of the Fourteenth Amendment, the Court was unanimous in its recognition that current state finance systems were inequitable, or "chaotic and unjust," in the words of Justice Stewart's concurrence with the majority. Justice Powell, writing the decision for the Court, concluded his opinion by calling for reform in school funding systems and encouraging states and scholars to redouble their efforts to that end.

Review of Federal Policy toward School Financial Reform

The major responsibility for the support of public education will continue to rest with state and local governments. Both constitutionally and fiscally, that tradition has been central to American educational federalism, providing diversity in educational program and an accepted division of labor in meeting domestic governmental costs. Second, we should recognize that school finance is an area in which a varied range of solutions exists, and that action in dealing with educational costs must be integrated with other taxing and services distribution decisions of state governments. Third, states have begun to make progress toward equalization, some in response to state judicial decisions, others in response to the political process. Fourth, we know that the total costs of reform are, although difficult to estimate, substantial in amount.

What are the implications for Federal activity in support of school finance equalization? Unlike compensatory education in the 1960's, finance reform does not appear to be an area in which the Federal government can bear a major share of the costs of change, nor is it one in which a Federally devised model can be provided to state systems. But within that caveat, a range of Federal options exists which includes technical assistance and capacity building; the revision of Federal formulas to avoid conflict with state efforts and the provision of incentives to state reform.

Technical Assistance and Capacity Building

In 1974, Federal legislation authorized technical assistance and capacity building for school finance equalization. Section 842 of P.L. 93-380 made \$13.5 million available to states to design improvements in the

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equalization of their finance systems. The National Institute of Education, responding to Congressional suggestions, created the School Finance and Organization Division. In 1977, in all, the Institute spent \$4 million on a range of research activities related to school finance, including activities involving researchers, state legislators, legislative staff, and other school finance planners.

In designing the future form of such activities, consideration should be given to emphasis on building in-house analytic capacity at the state level, establishing stronger links between state policy makers and university scholars, providing information on technological supports like computer simulation capacities, and providing more effective statistical services from the National Center for Education Statistics.

Revision of Federal Programs to be Consistent with State Equalization Programs

P.L. 93-380's modification of the 5(d)(2) restriction in Impact Aid demonstrates that Federal programs can be revised to avoid conflict with equalization provisions in effective state laws. While SAFA was a particularly relevant candidate for such a provision because it is directed to compensating for Federal effects on state and local school support, other programs may accommodate similar provisions without interfering with their substantive purposes. Any Federal categorical program which either builds upon a general purpose program or requires local contribution to the funding of the program could take into

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consideration the funding capacity of the recipient LEA. Title IV of B of ESEA includes a provision of this nature, as do the new Vocational amendments. We will be examining the effectiveness of those and other such provisions to develop effective mechanisms for consideration in future legislation.

Providing Incentives

Incentives for equalization can range from easing administrative or targeting requirements in Federal legislation to providing substantial support, as in H.R. 1138. A report prepared in 1975 by one of our policy centers reviewed a series of alternative bills designed to accomplish similar or related purposes, and that report has been forwarded to your committee. In most cases, the funding levels required range from over \$1 billion to as much as \$27 billion. Given present funding constraints, such measures seem unlikely of adoption. At present, our judgment is that meeting present authorization commitments for the costs of the Aid to All Handicapped Children Act and the Elementary and Secondary Act should take precedence for substantial funding.

Conclusion

In conclusion, what I have tried to suggest today is that there remain substantial problems in the financing of elementary and secondary education at the state and local levels, problems which deny an equal educational opportunity to large numbers of children. These problems raise major issues to be considered by Federal policy makers, both because of our traditional commitment to eliminating barriers of wealth and discrimination

in education, and because finance disparities have an impact on the operation of existing Federal aid policies. We have indicated that a range of Federal aid policy options exists, both in the short- and long-run, and we intend to analyze and develop a number of those options. We will be happy to share our conclusions with this committee.

We appreciate the opportunity to testify on this important topic.

I will be pleased to answer any questions.

Dr. BERKE. Let me turn first to whether patterns of school finance still deny educational opportunity in the States. I think the starting point is to recognize that there has been significant progress since 1973 in overcoming some of the inequalities in school funding that have characterized American public school support since the beginning of the century.

A reform movement which was primarily State-begun has given us some examples of States in which fiscal equalization of opportunity has been quite substantial, but the record is uneven. There are by some counts as many as 20 States which have enacted reform, but as Mr. Jordan indicated earlier, and I agree with him, the number that have had substantial programs may be closer to 8 or 10.

But there are really two tendencies which are diluting the impact of reform policies, even in the States which have enacted reform. One of these tendencies is that most of the programs as they were enacted frequently made substantial compromises with the status quo and with existing legislation in the States.

The second tendency has been that much of this reform legislation has been underfunded; that is, not sufficient money is flowing through these new formulas to offset the basic disparities in tax bases that exist in the States. When you turn to the somewhere between 30 and 40 States that have really not made substantial progress at all, we see those same patterns of disparity that have stimulated reform efforts for many generations.

There are essentially three kinds of districts which are in trouble.

First, there are those districts which have a low tax capacity for education. Even in cases where they enact relatively high tax rates, their capacity to furnish an educational program at average levels in the State is nonexistent. Such districts are often rural, sometimes they are blue collar suburbs, sometimes they are in small towns. They are traditionally districts with low proportions of commercial and industrial property and frequently districts with moderate or low income.

Second, there is a category of districts with high proportions of pupils requiring costly educational services. The problems of these districts are not encompassed by most traditional State aid formulas. These districts are sometimes rural, sometimes urban.

The third problem, and one which is particularly apparent, is the problem of the largest urban districts in the Nation. Large districts in the Northeast and Midwest in particular, and some sprinkled throughout the Nation, pose a real dilemma because, as Dr. Ginsburg pointed out, their expenditures are often at least at the State average and sometimes higher, their property tax bases are often at the State average and sometimes higher, and yet their problems in raising revenue for education are among the most substantial of any kind of district in the country.

Their problems come from their high need to support other kinds of public services out of that same tax base, their high proportions of needy pupils, and the higher cost levels that exist in many of the larger cities.

To summarize, under current State finance policy, despite the existence of a body of knowledge about reforms and a number of examples of real progress, denials of equality of opportunity continue to exist of a substantial dimension.

Now what is the relationship of this to Federal education programs?

I think we start with the clear understanding that the basic support of education in the United States is a State responsibility. States in turn have delegated a substantial share of this responsibility to local school districts. Nonetheless, there is, as you well know on this committee, a series of Federal programs that, while not established according to a comprehensive plan, indeed provide a comprehensive set of national interests, interests in three major areas: those providing equal opportunity for the poor, the victims of discrimination, and the handicapped; programs aimed at improving the quality of education; and, finally, programs meeting national priorities, such as vocational, manpower, and impact aid.

Most Federal aid is focused on the goal of achieving greater equality of opportunity and access to education, by removing the barriers of discrimination.

Now the funding patterns in the States impact on the effectiveness of these existing Federal aid programs. Title I of ESEA, for example, is intended to focus additional resources on children of parents living in poverty. While we at the Federal level are focusing funds in greatest proportion on poor rural and large urban districts through Title I, State and local finance systems are frequently not recognizing those same interests and are in fact working in the opposite direction. Thus, the basic school program available in those jurisdictions on which we build our Federal programs is frequently at counterpurpose to the Federal goals.

The *Rodriguez* case, I think, also deserves mention because, while a narrow majority of the Supreme Court held in that case that interdistrict disparities did not represent a violation of the 14th Amendment, the court was unanimous in its recognition that current State finance systems were inequitable, chaotic, and unjust. Justice Powell, in concluding his opinion, while holding that the

14th Amendment did not constitutionally prohibit such systems, called upon the States and scholars to redouble their efforts to overcome such disparities and inequities.

Let me turn to how Federal policy is dealing with these issues.

I start again with the understanding that the major responsibility for the support of public aid to education is implicitly a matter for State and local governments under Federal policy. We also recognize that school finance is an area in which a varied range of solutions exists and that no single Federal model would be appropriate.

Third, we recognize that States have begun to make progress toward equalization, that they have gotten the ball rolling and have in many cases moved substantially toward the goal.

Finally, we recognize that the costs of reform, although difficult to estimate, are substantial.

Yet there is a range of activities which the Federal Government has already undertaken in the area of attempting to encourage State school finance reform. Technical assistance activities under section 842 of Public Law 93-380 have furnished \$13.5 million to help States design greater equalization in their finance systems.

The National Institute of Education, at congressional urging, created a School Finance and Organization Division which has provided a variety of funding activities aimed at involving school finance researchers, State legislators, legislative staff, the education commission of the States, and others.

In addition, other finance activities of the institute bring their expenditures to about \$4 million this year on these and other activities related to the financing of education.

In the future, I would recommend that consideration should be given to emphasis on building the in-house analytic capacity of States to conduct greater school finance analysis, to establish stronger links between State policy-makers and university scholars, to provide information on technological supports like computer simulation capacities, and to provide greater statistical services from NCES in this field.

A secondary area of Federal recognition of the desirability of school finance reform has been the modification of Federal programs so that they are not inconsistent with State efforts. The 5(d)2 modification of that restriction in Public Law 93-380 in regard to impact aid is one very good example of an attempt to avoid conflict with State equalization efforts. It provides two approaches for States to qualify under and may be a useful precedent to us, because any Federal categorical program which either builds upon a general purpose program or requires local contributions to its funding, can have considerations of capacity of the recipient LEA taken into account.

Title IV(b) of ESEA recognizes this; the vocational amendments of 1976 recognize this, and I think this is a valuable trend that we see in Federal legislation.

Last, there is the potential for providing Federal incentives for equalization and these can range from easing the administrative or targeting requirements in Federal laws to providing substantial support for the cost of equalization that are included in measures like H.R. 1138.

I think the committee is familiar with the report that one of our policy centers did several years ago, reviewing a number of examples of legislation akin to H.R. 1138 which have been introduced in previous years. The costs of such programs are substantial. They range anywhere from somewhere in the neighborhood of a billion dollars to as much as \$27 billion, and those costs are very difficult to estimate as is whether they are really meeting the problem.

Given present funding constraints, such measures seem unlikely of adoption. At present our judgment is that meeting the present authorization commitments for programs like the Aid to All Handicapped Children Act and the Elementary and Secondary Education Act should take precedence for present Federal funding.

Let me conclude. What I have tried to suggest today is that there remain substantial problems in the financing of elementary and secondary education. These problems raise major issues to be considered by Federal policymakers, both because of our commitment to eliminating barriers of wealth and discrimination, and because finance disparities impact on our existing Federal aid policies.

Finally, I have tried to indicate a range of Federal aid policy options that exist both in the short run and long run, and we intend to analyze and develop a number of those options and will be happy to share our conclusions with this committee.

I appreciate the opportunity to testify and will respond to any questions.

Chairman PERKINS. Thank you for your testimony this morning. I am sure the committee will enjoy reading it.

Our next witness is Dr. Kenneth Quindry, Research Professor, University of Tennessee.

I note your statement is rather lengthy. Without objection your prepared statement will be inserted in the record and if you care to summarize it, it will help us here this morning.

STATEMENT OF DR. KENNETH E. QUINDRY

Dr. QUINDRY. Mr. Chairman and members of the committee, I am pleased to have been invited to appear before this committee.

Removing disparities in public education financing is closely related to the ability and effort of States and localities to provide the resources, as well as to Federal equalizing grants. This is what I will talk about.

I have conducted State effort and ability studies for the Southern Regional Education Board for a period of ten years. After a brief introduction, my remarks will be directed to the SREB studies. Then I will evaluate effort and ability studies and suggest what I think needs to be done in this area in order to provide adequate data upon which to base interstate and intrastate resource programs, or grant programs such as H.R. 1138.

The United States is a Federal system of government operating under a Federal constitution which divides public functions between the national government and the States. It is generally accepted that most domestic functions should be administered by the States. States, in turn, assign a large part of their performance responsibilities to their subdivisions.

The Federal Government uses its taxing authority as necessary to provide for financing public services in which all citizens should participate uniformly. Functions for which some nonuniformity of service levels can be tolerated are delegated to the States, and some finally to sub-State jurisdictions. If the functions are properly allocated, the result is maximum economic efficiency in the public sector and maximum public welfare.

The proper allocation and distribution of public service responsibilities permit interjurisdictional service level differences, depending on jurisdictional preferences. Both the Federal Government and the States must guard against intolerable interstate and intrastate service level disparities.

The Federal and most State constitutions provide that every citizen is to be accorded equal opportunity to consume public services in line with individual capacity and needs. Providing adequate and equitable service levels to all citizens is especially urgent for functions of a fundamental nature such as public education.

Mountains of data have been accumulated to prove that wide interjurisdictional disparities exist in the provision of public education services. Substandard levels of services are generally attributed to low jurisdictional ability and heavy reliance on local financing.

The local property tax is generally singled out as the major culprit. The answer to the dilemma lies not in additional authority for local nonproperty taxation; it lies instead in a comprehensive reform of the State-local tax systems and in the Federal and State grant systems. Administrative responsibilities are not well-coordinated with financing capacities and responsibilities.

While the public education dilemma is widely recognized, it should not be overlooked that the same dilemma is found in other important but less fundamental public services. Because the dilemma encompasses many locally-administered services, and because their financing is interrelated, it is necessary in reviewing the situation to review the full range of financing arrangements.

The concept of equity in public services has two components:

First, government should provide equal access to public services at a level that permits full development of each citizen's potential.

Second, the cost of the public services should be equitable within tolerable limits to the individual citizens, and I want to stress individual citizens at this point.

The two elements are interdependent but uncoordinated. Administrative responsibilities are highly decentralized. It is unusual to find equal levels of interjurisdictional financing ability.

As long as administrative responsibilities are decentralized, ways must be sought to equalize financing ability so that reasonably uniform resources can be applied to the standard public functions in each jurisdiction. By achieving expenditure uniformity, we assure that services levels are substantially equal. At least this is about the best measure we have today.

The ability to equalize costs depends on the availability and adequacy of what is commonly termed relative ability or capacity, and effort or burden, which generally talk in terms of ability and effort.

If two identical jurisdictions collect identical amounts of taxes from their taxable resources, they have exerted equal effort. Despite our inability to measure relative taxable resources (ability) precisely, we know that they vary widely among taxing jurisdictions. Those low in ability cannot adequately meet their responsibilities in the absence of above average effort, or in the absence of high taxes. Those high in ability can meet their responsibilities with below average effort.

Studies of ability and effort—usually relative State measures—have been and are being conducted. They include studies by the Advisory Commission on Intergovernmental Relations, Brookings Institution, the U.S. Department of Health, Education and Welfare, and the Southern Regional Education Board.

In many respects the methodologies are similar. Results differ because of the choice of different assumptions on what constitutes jurisdictional ability to pay taxes.

The methodologies can be distinguished, however, in that one compares a representative set of tax bases and the other the potential taxes from a representative tax system. In the first case, economic factors that either are the tax bases or are closely correlated with tax bases are gathered and compared. In the second case, taxes are computed from a representative tax base, using a uniform set of tax rates, and results compared.

A continuing effort has been made by the Southern Regional Education Board in Atlanta since the late 1950s to measure State and local ability and effort, using a methodology developed by Dr. James W. Martin at the University of Kentucky. The methodology has been applied annually since 1967 and is slightly modified from time to time.

A summary report in 1976 described the trends in State tax collections or tax effort, tax potential (ability) and underutilization by State and by tax from 1961 to 1974. The data were updated to 1975 for this report. State and Local Revenue Potentials, 1976, will be published in December 1977 or January 1978.

The SREB employs a simplified representative tax system in computing ability and effort and then in comparing relative State-local tax performance. The methodology can be described as taking place in six steps:

First, tax collections are designated by major source—that is, general sales and use, personal income, general property, et cetera, into 14 major sources and an "other" category.

Second, an average rate is computed for each tax for States using each particular tax.

Third, the average rate is applied in each State against a proxy base attributed to the State.

Fourth, this potential collection (ability) is compared with actual collections.

Fifth, a tax is underutilized or overutilized depending on whether potential collections exceed or are less than actual collections.

Sixth, a State-local tax system is underutilized or overutilized depending on whether potential collections exceed or are less than actual collections.

By using the summary report covering 1961-1974 data and the subsequent report for 1975, the trends in ability, effort, and underutilization or overutilization of ability can be traced.

For the 50 States and the District of Columbia, State and local tax collections increased from \$39.1 billion to \$143.0 billion from 1961 to 1975, 266 percent. The most rapid growth was in the SREB region and the Pacific region, in that order. Collections in the SREB region were up 310 percent, well above the national average. Along the eastern seaboard and in the North Central region, growth lagged the 50-State average.

Percentage growth by region was: SREB, 310 percent; Pacific region, 276 percent; Mountain region, 264 percent; New England region, 260 percent; Middle Atlantic region, 255 percent, and North Central region, 232 percent. Southern region and Pacific region showed the greatest growth in tax collections or effort.

The ability to collect State and local taxes increased by 246 percent from 1961 to 1975 in the 50 States and the District of Columbia. Most rapid growth was in the SREB region, the Mountain region, and the Pacific region, in that order. Growth in the two eastern and North Central regions was less than the 50-State average.

Potential growth or ability by region was: SREB region, 303 percent; Mountain region, 271 percent; Pacific region, 221 percent; North Central region, 228 percent; New England region, 221 percent, and Middle Atlantic region, 201 percent.

In general, growth in both ability and effort corresponded to growth in personal income and population in the States and regions. Of course, this is to be expected because tax liabilities are generated by economic activities, and we are all aware that the Southeast and the West are the fastest-growing economic regions in the United States today.

Now, looking at the underutilized potential or the effort or the lack of effort to use their ability, the statistics indicate that some regions and States have rather consistently over- or underutilized their potential to collect taxes at average rates.

Overutilization is rather consistently found in the Middle Atlantic region and the Pacific region, but it is attributable to New York and California, respectively. Since 1972, Massachusetts has swung the New England region in the overutilization column. Other States overutilizing their capacity in 1975 were Vermont, Minnesota, Wisconsin, Arizona and Hawaii. Underutilization occurred in every State in the SREB region, the Southeast.

It is interesting to note that actual collections in every region increased at a faster pace than potential collections. Thus, pressure on the available tax bases increased from 1961 to 1975. The importance of the changes is especially significant in the New England and the Middle Atlantic regions, and relatively insignificant in the North Central, SREB, Mountain, and Pacific regions. That is, the increased effort relative to ability did not increase greatly except in the New England and Middle Atlantic regions.

If all 509 States employ a particular tax, overutilization and underutilization cancel out because an average rate is applied in every State. However, individual State above and below-average utilizations are recognized. If less than 50 States employ a particular tax, the underutilization is represented by the potential collections in the nonuser States. Major taxes not used by all States, and where

the bulk of underutilizations are found, are the general sales taxes and the corporation and personal income taxes.

Ability-effort studies are extremely valuable in tax and grant policy decisions. The SREB reports are perhaps among the most valuable because they are produced annually on a fully comparable basis. They serve as the basis for intrastate as well as interstate analyses. The statistics are also relatively simple and economical to produce.

In another sense, all the current ability-effort studies need to become more sophisticated in order to become fully adequate as tax and grant policy tools. This becomes evident when we realize precisely what ability and effort really mean.

As currently envisioned, tax ability is essentially a jurisdictional concept. It represents availability of taxable resources in a jurisdiction. Tax effort represents not only the extent to which these resources are levied upon, but also the extent to which nonjurisdictional resources are subject to be taxed. This adds to tax ability.

Moreover, some of the potential taxable resources are effectively removed from the jurisdictional tax base by the same process—interjurisdictional economic activities. This reduces tax ability. It is not likely that the pluses and minuses will exactly cancel out.

We have commuting between tax districts. Tax ability is not then fully a measure of the capacity of the families and individuals in a jurisdiction to pay taxes. Tax effort is not fully a measure of the tax burden placed on the personal taxpayers in a jurisdiction.

Because all taxes are ultimately shifted to consumers, it would be more specific to measure both burden and capacity in terms of personal taxpayer units. We find rich taxpayers in poor districts and we find rich taxpayers in rich districts, and poor taxpayers in poor districts and poor taxpayers in rich districts. So that if we equate tax effort among jurisdictions, we do not equate tax effort among the people, the personal taxpayer. So capacity could be related to personal taxpayer income, with income defined in rather broad terms. Burden would recognize both the level and distribution of tax levies attributed to the family and individual taxpayer units.

Quite simply, all State and local taxes should (a) be allocated to the jurisdictions in which the tax incident is located, and (b) be distributed among families and individuals according to the level of income, by income class. Once incidence is settled at the personal level, the best measure of capacity is total family and individual income.

If every tax is finally settled on the personal taxpayer units by income class we then have a tax distribution that may be regressive, proportional, or progressive. Tax burden distributions as well as tax levels can be compared and evaluated. Comparative tax levels and burden distributions are the two basic factors upon which tax and grant policy should be conditioned. Whether one accepts regressivity, proportionality, or progressivity as a measure of equity, or whether one accepts the discovered differences in levels and distributions in taxes as tolerable, a comprehensive 50-State tax study is needed in order to establish both the jurisdiction and the distribution of the tax State-local incidence.

Finally, because Federal taxes also have important distributional aspects with interjurisdictional implications, Federal taxes should be included in a comprehensive study. Such a study has been proposed by the University of Tennessee and some other organizations working with the university in which we propose to make just this study.

It had been made to the Economic Development Administration, it has passed their technical review and is now up for final decision, whether it will be financed or not. Hopefully we then would have a basis to provide you with excellent data on the individual tax problems in every State in the Union.

Not very much has been done as yet on intrastate work. We would hope that this could be extended then to intrastate tax burdens.

That is all I have, thank you.

[Prepared statement of Dr. Quindry follows:]

ACHIEVING EQUITY IN STATE-LOCAL PUBLIC FINANCE

By

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Prepared for Presentation to

The U.S. House of Representatives
Committee on Education and Labor
Subcommittee on Elementary, Secondary
and Vocational Education

Washington, D.C.

September 29, 1977

PART I

BACKGROUND

Introduction

The United States is a federal system of government operating under a Constitution which divides public functions between the national government and the states. The federal Constitution gives Congress the power to collect revenues sufficient to provide for national defense and the general welfare of the United States--to provide uniformly for certain public services of benefit to all the people of the nation.

Basic to a federal system is the view that administration of certain public functions should be centralized and others, decentralized. One of the primary values of a federal system is that it permits a variety of public choices, creating greater freedom to develop different packages of public services for functions in which regional nonuniformity can be tolerated without compromising the national interest. Regional differences in characteristics, desires and needs are the basic justification for a federal system. Variations in demographic, economic, political and social characteristics bear directly on the relative capacities and efforts of the subnational governments to function adequately and effectively in both the local and the national interests.

Public service diversity within tolerable limits is compatible with federalism. Beyond tolerable limits, diversity limits the viability of states and their subdivisions in meeting national objectives. Services provided by states and local units vary in both quality and quantity either from choice or lack of capacity. A few generations ago, such

variations were of little national interest because of the relative lack of interarea communication and mobility of the population.

Beginning with the Great Depression, and more specifically since World War II, the economic and social interdependence of the nation has shown a marked increase. This interdependence is the product of rapid population growth and urbanization and of rapid industrialization and technological change. Simultaneously there developed widespread concern for the status of minority and various underprivileged groups in the economic and social life of the nation. Interarea inequities that in earlier times were seen as purely local in character are now of regional and national significance.

While all public service delivery problems related to the growing interdependence have not been satisfactorily solved, the federal system is striving to cope with them. Since its inception, the system has undergone continuous adjustment, until today it has little resemblance to the theory of separation of functions as envisioned by the founding fathers. Today more than ever before there is need for regional cooperation and coordination among the levels of the federal system in delivering and financing public services.

In many respects, the division of responsibilities among the levels of government have become exceedingly blurred. The implied powers in the "general welfare" clause of the U.S. Constitution provide the federal government with broad flexibility to extend the scope of its domestic responsibilities in keeping with the growing economic and social complexities. This is clearly demonstrated by the federal involvement in busi-

ness and labor regulation, in welfare and education, and more recently, in energy conservation and consumer and environmental regulations.

To say that these functions have increasingly become national responsibilities does not mean that state and local responsibilities have declined. Despite the indications of growing federal financial participation, the state and local governments continue to be the dominant element in the public service delivery system. The post-war rise in the standard of living of an industrialized society has brought demands for more and better public services. Administration is still a state-local responsibility; but administration is increasingly separated from financing. Centralization of financing has not resulted in a significant amount of centralization of administration.

Through both conditional and unconditional grants, the federal government participates in many state and locally administered programs. Given the modest federal controls on spending and accountability, decision-making is not being effectively centralized. Grants do, however, enable the federal government to recognize and influence the extension of national interests among the previously predominantly local interest functions. They also enable some state and many local governments to respond more adequately and uniformly to the extent and diversity of local needs.

Centralization, Decentralization and Public Welfare

Public welfare is assumed to be maximized if some public programs are uniformly administered by the federal government and others by the state or local jurisdictions. When national uniformity of service

levels is desirable, the federal is the proper administrative level. Financing is by means of federal taxes, administered uniformly across the nation. When nonuniformity is tolerable, a function should be performed at the state or local level. Financing is by means of local (state) taxes many times supplemented by state (federal) funds (conditional and unconditional grant programs).

There can be little doubt that the administrative decentralization of basically local functions contributes to economic and social efficiency. It also creates financing problems. First, there is the problem of externalities, or benefit and cost spillovers. Benefits provided by local (or state) administration oftentimes is not confined within the political boundaries. Costs incurred in providing local (or state) services sometimes spill over into other jurisdictions. It is virtually impossible to measure accurately the benefit and cost spillovers. Theoretically, we can state that costs should be distributed among the levels of government according to benefits received. But in this time of extensive industrial and population mobility and instantaneous communications, who can determine the incidence of benefits and costs? The best that can be determined is an arbitrary, but reasonably researched, division of finance responsibility. Even imprecise distribution of costs provide significant improvement in efficiency and equity over what might be achieved in the absence of cost sharing.

Second, the geographic area drawn for administrative purposes may not be coterminous with the most efficient revenue collection area. Local governments are notoriously inefficient collectors of taxes, except possibly for real property taxes. Other local tax bases are

relatively mobile or the point of tax impact differs from the point of incidence and the latter is uncertain. Even when incidence can be determined, local tax systems are usually excessively regressive, burdening low-income taxpayers heavier than high-income taxpayers and tax administration and compliance are of relatively low quality.

Because of the larger geographic area for uniform taxation, statewide taxes are more rational and usually less regressive. Many states, however, have not taken full advantage of their opportunities to provide optimum tax systems. Many, especially in the South, continue to depend heavily on consumption and property taxes. The result is state tax systems that are both regressive and relatively unresponsive to economic growth.

A third major finance problem involves the variations in ability of states and local jurisdictions to finance adequately all the functions for which they are administratively responsible (including their allocative share of multilevel financing). Within the jurisdiction, tax capacities are poorly correlated with expenditure needs. States and local jurisdictions, relatively poor in taxable resources, usually have extensive expenditure needs. Others, rich in taxable resources, can provide for their financial requirements adequately. In the first instance, the tax effort tends to be above average, and in the second, below average. The reverse is generally true for service levels.

Fourth and last, individual differences in ability to pay taxes exist within each particular state or local jurisdiction. While we wrestle with jurisdictional tax capacity and effort and the desire to equalize the opportunity of the citizens to consume public services, we

sometimes tend to overlook the relationships between individual capacity and burden. Intergovernmental transfers may equalize jurisdictional tax effort and the tax burden on the average taxpayer. They may (and should) equalize the capacity of administering jurisdictions to provide equal opportunity for all citizens to consume public services. But all taxpayers are not average. One finds both high and low-capacity taxpayers in high-effort, low-capacity jurisdictions as well as in low-effort, high-capacity jurisdictions. One solution to this dilemma is tax reform--to provide less regression or more progression in the state-local tax systems. Another is "circuit breaker" tax relief in which relief is awarded in relation to the level of tax burdens to relieve "excessive" tax burdens.

In summary, federalism rests on the theory that some decentralization of government increases the efficiency and equity of public services and public service financing. The goal of federalism is to provide every citizen an equal opportunity to consume public services at reasonably equitable costs to individual taxpayers. One side of the coin is equalizing service levels. The other side is equalizing costs.

Financing public services in a federal system is a highly complex undertaking. It must permit each administrative jurisdiction to provide its citizens with services that are reasonably equitable at an acceptable adequate level to those in other similar jurisdictions.¹ For

1. Equalizing costs or service levels does not mean absolute equality. The goal should be a minimum service level that permits every citizen an equal opportunity for full development of economic and social potential. Costs (financing) should be equalized at this level. Beyond the minimum level some jurisdictional leeway should be retained to achieve higher levels, but with own-source revenues.

this to occur, two things must take place. Interjurisdictional transfers must be designed to equalize the capacity to provide services in a nation in which externalities are extensive and jurisdictional capacity is highly diverse. Each jurisdiction should be encouraged to use its inherent capacity at some established level in relation to its taxable resources (effort). Moreover, no individual taxpayer should be required to bear a tax burden greatly in excess of an average burden as measured by individual capacity. That is, both jurisdictional tax effort and individual tax burdens should be equalized. The tax system is the basic tool to use in the equalization efforts. Intergovernmental transfers and individual taxpayer relief are supplemental.

Current Status of Tax Reform and Tax Studies

State and local taxes continue to grow both in absolute amounts and in relation to taxable resources, but the growth is uneven. While some tax reform is evident, most of the recent improvement in the state and local tax systems has come about inadvertently because of finance pressures experienced by state and local governments. For example, New Jersey's introduction of a personal income tax, while it improved the tax system, was directly the result of Robinson v. Cahill in which the state was directed to provide a new financing program for public education in which local property taxes would necessarily play a reduced role. Several state and local tax studies are being conducted as a result of "Sec. 842" federal financing in which studies of both equal opportunities for education and tax equity are required in determining the eligibility for federal research funds. Hopefully, some impetus for significant tax reform will come from these reports. School finance

reform would seem to be forthcoming through either judicial or legislative actions in several states.

In spite of some efforts to do so, public education finance cannot be fully and successfully separated from general public financing. School taxes are one element in the total state-local tax system and must be examined in this context. Education financing is no different from a public finance standpoint than financing police and fire protection as well as a host of other local services. If property taxes can be used in excess to finance local schools, they can also be used in excess to finance other local public functions. The problem is not with the property tax per se but with the jurisdictional distribution and the relative dependence on the tax base. The same would be true with other major local tax bases (i.e., income or consumption). Interjurisdictional maldistribution is equally poor. Diversifying the local tax base has both advantages and disadvantages; the disadvantages possibly outweighing the advantages.

The problem is that local governments are called upon to support too large a share of public expenditure needs or conversely to administer too many programs. Therefore, too much pressure is placed on the mainstay of the local tax system--the property taxes. Education is the most visible expenditure problem and property taxes, the most visible tax problem because local education financing is so intimately related to the local property tax. The problem is not only with comparative aggregate state-local tax effort but with the direction (source) of the effort (the burden distinction) and the interjurisdictional diversity of the capacity against which the effort must be directed.

In summary:

- (a) State and local taxes are growing both absolutely and in relation to personal income, and doubtless, in relation to other capacity measures.
- (b) There is little evident effort on the part of state legislatures to reform state-local tax systems, other than as mandated by the courts or encouraged by federal legislation.
- (c) Local units are required to bear a too large share of the state-local tax load.
- (d) Local units do not have equal access to tax resources.
- (e) There are important institutional and political restraints on local jurisdiction's capacity to levy and collect taxes.

Developing Capacity Measures

There are questions as to the reliability of the measurements of fiscal capacity and effort at both the state and local levels. Several projects to develop capacity measures have been or are being carried on. They have usually been so cumbersome, expensive and time-consuming that periodic updating has not been attempted. Sometimes they have depended on data series that are of questionable validity, leading to the questionable reliability of the final capacity measures. In short, complex capacity measures are probably no more reliable than the simpler ones.

A widely heralded, modern, fully developed "representative tax system" was developed by the Advisory Commission on Intergovernmental

Relations in 1962.² This was followed in 1971 by a second Commission report.³ More recently work has been done by Robert Reeschauer for the Brookings Institution and D. Kent Halstead for the U.S. Department of Health, Education, and Welfare. In general, recent refinements attempt to provide simplified methodology using readily available sources so that capacity and effort indexes can be computed periodically with a minimum of costs in resources and time.

A continuing effort has been made by the Southern Regional Education Board in Atlanta since the late 1950's to measure state and local tax potential (capacity) and effort, using a methodology developed by Dr. James W. Martin at the University of Kentucky. Subsequent to the first reports, the methodology was refined and the revised methodology has been applied annually since 1967. Reports are published each year usually in December. State and Local Revenue Potentials, 1976 will be published this December (1977). Recently the SREB published a summary report, Taxes and Higher Education: A Look at Actual and Potential Revenues, 1961-1974, in which selected years were chosen for comparison and the data prepared in a fully comparable fashion so that trends by major tax and by U.S. region and state could be traced. Much of the data in later sections in this report is based on the SREB reports. While the SREB methodology is not perfect, it offers the distinct advantages of continuity, economy and simplicity.

2. Advisory Commission on Intergovernmental Relations, Measures of State and Local Fiscal Capacity and Tax Effort, Report M-16 (Washington: Advisory Commission on Intergovernmental Relations, 1962).

3. _____, Measuring the Fiscal Capacity and Effort of State and Local Areas, Report M-58 (Washington: Advisory Commission on Intergovernmental Relations, March 1971).

Capacity and Effort - Methodologies In Common Use

Achieving equal access to public services is usually measured by the equity in dollars that contribute to financing public services. While it can be criticized, per capita dollars in public sector expenditures are a readily available index of individual equity. A primary goal of the state-local tax system and of federal and state interjurisdictional transfers is to equalize interjurisdictional per capita expenditures.

Wide variations exist in the capacity of jurisdictions to contribute revenues from their own sources. The balancing factor for equalizing per capita expenditures is intergovernmental transfers. Justification for receiving transfers rests on creditable use of a jurisdiction's capacity to support itself. In order to equalize resource availability, the magnitude of the individual transfers must be determined by the capacity of the receiving jurisdiction to support itself at a uniform effort level.

Fiscal capacity refers to the magnitude of taxable resources, taxing jurisdiction has available. In absolute terms, it is the summation of all available tax bases with a taxable situs in the jurisdiction. In relative terms, fiscal capacity is measured by selected economic indicators that correlate closely with absolute capacity. If the indicators are reliable, relative capacity can be measured and interjurisdictional capacity and effort can be evaluated. The most commonly used factors are population, income and property wealth (the latter especially for school financing programs). Other available economic factors include retail sales, employment, value added, per capita income, regis-

tered motor vehicles and value of severed natural resources. Each serves either directly or indirectly as the basis for tax revenues. A composite weighted index of several economic factors is usually preferred because all factors are not uniformly available in all taxing jurisdictions.

An alternative measure of capacity is to examine the tax instruments generally available to states and local jurisdictions and to compute potential revenues for each source. Tax sources are examined by means of a "representative tax system" in which each major tax base available for taxation is estimated and the amount of revenue available from each base for each jurisdiction is computed, using a uniform set of rates. This method implies complete state-local tax uniformity in the tax systems and the amount of potential revenue under full uniformity is computed. Potential and actual collections can be compared, or the data can be converted to per capita terms and indexes of capacity and effort prepared.

The two procedures tend to converge because the economic factors represent the tax bases. Uniform effort is mandated by the assumption of a uniform set of tax rates. Assuming (a) capacity measured by a given set of economic factors and (b) capacity measured by potential tax collections using the same set of economic factors as tax bases in both areas and a uniform set of rates in the latter case the interjurisdictional relationships would be identical.

Substantial differences in results can be obtained in comparing interjurisdictional capacities depending on the economic factors used and the weights given to each. For example, capacity computed using an

income series or income as a proxy base for all taxes will differ from capacity in which property wealth is a second factor, depending on the variation of the value of taxable property to income. Nor does an income series relate directly to capacity for all business taxation for the same reason. Taxable business activity does not uniformly relate to income attributed to a jurisdiction. An income series is a good measure of capacity for approximately 65 percent of state and local taxes. In computing capacity for the remaining 35 percent, other economic series are more appropriate. The simple fact is that taxes that are not paid out of the income flow attributed to the jurisdiction should be related to some other capacity indicator.

The measurement of fiscal effort requires a measure of fiscal capacity. Fiscal effort indicates the extent to which a jurisdiction actually utilizes its fiscal capacity. Fiscal effort by the usual definition does not necessarily burden the family and individual taxpayers residing in the jurisdiction. Thus a distinction between fiscal effort and fiscal burden must be made.

There is an interchange of tax efforts among jurisdictions because of the interjurisdictional business and personal activities. This tax exporting cannot be assumed to be offset by tax importing. Some jurisdictions, notably the states with extensive extractive industries (oil and gas especially), are net exporters of taxes. The tax burden on family and individual taxpayers is significantly less than the apparent tax effort. Other states are net importers of taxes.⁴

4. There is no easy way of determining whether most states are net importers or exporters of taxes. However, it is imperative that accurate measures of tax importing and exporting be developed if jurisdictional tax effort is to be measured in the sense that it is a burden on the jurisdictions individual and family taxpayers. Without this measure, intergovernmental transfers based on capacity and effort tend to misdirect the allocation of the funds. No current comprehensive measure is available.

In summary, fiscal effort can be defined in a jurisdictional aggregate sense as the extent of utilization of all taxable resources located in the jurisdiction--at the point of impact. Tax effort does not necessarily burden the resident taxpayer if the tax can be shifted (exported) to another entity. On the other hand, imported taxes do burden resident taxpayers. Fiscal burden should be defined as the tax load placed on individuals and families by all state and local jurisdictions after all possible tax shifting has taken place. It matters little whether the tax is levied by the taxpayer's jurisdiction or another one. The burden of the tax is at the point where the tax finally comes to rest--where no further shifting is possible.

As a final point in evaluating effort (burden) for purposes of determining tax policy or the allocation of intergovernmental transfers, this writer maintains that the incidence of federal taxes should be included. First, federal taxes do not fall evenly on families and individuals in all state and local jurisdictions. Second, as long as state and local taxes are permitted to reduce federal tax responsibilities (deductions or credits), the actual state-local tax load is overstated, and unevenly so. In essence, what is being suggested is that all federal, state, and local taxes be assumed as "effort" at the point of incidence.⁵

5. The incidence of many business taxes is uncertain. A proposal to assign all federal, state and local taxes by state under various assumptions has been presented to the Economic Development Administration by the University of Tennessee. The study would provide a comprehensive estimate of federal, state and local tax burdens by state of incidence. Hopefully, financing will be forthcoming.

PART II

AN EMPIRICAL ANALYSIS OF STATE CAPACITY AND EFFORT:
THE SREB REPORTSIntroduction

Adequate measures of fiscal capacity, burden and effort are significant to officials at all governmental levels. They provide policy makers with perspectives on the fiscal performance as guidelines to budget policy. They highlight significant variations in capacity-effort relationships that are valuable in evaluating resource availability at reasonably equitable burden levels.

This section of the report reviews and analyzes capacity and effort data presented in the SREB reports mentioned earlier. The reports employ a simplified version of the "representative tax system" in which a limited number of proxy tax bases are used. Tax capacity (potential) is computed for each state and major U.S. region and compared with actual collections. Reasonably comparable data have been prepared annually for each year since FY 1967.

Methodology

The basic methodology used in the SREB reports can be summarized as follows:

- (1) The tax designations are the revenue sources such as general sales taxes, personal income taxes and license fees as defined by the U.S. Census of Governments.

- (2) Tax collections, or effort, represents the amount of revenue collected from a tax during a given year as reported by the U.S. Census of Governments.
- (3) Potential, or capacity, collections represent an amount that could be collected by applying uniformly in all states, a tax rate which is equal to the average rate for all states using a particular tax. The average rate is computed as the aggregate collections divided by the aggregate (proxy) base for all states using a particular tax. The states' potential, or capacity, is computed by multiplying the average rate by the base in each state. A state's tax potential, or capacity, is equal to the aggregate capacities of 14 individual taxes plus collections from miscellaneous and unallocable sources.
- (4) A tax is overutilized if capacity collections are less than actual collections. It is underutilized if capacity collections exceed the actual collections.
- (5) A state-local tax system is overutilized if the aggregate of overutilization of some taxes exceeds the aggregate underutilization of other taxes. Underutilization occurs if the opposite is true.

The SREB reports are classified as tax effort studies--not burden studies--because they measure the extent to which states and their local jurisdictions tap their available resources. No attempt is made to measure the burdens placed on individual and family taxpayers in a jurisdiction as would be done in a burden study. The basic purpose is to measure actual collections in each of the 14 major tax categories against capacity collections in order to determine areas in which a state is performing below or above the 50 state average.

Personal income is the representative measure for computing capacity collections for most taxes. In these cases, the average rate is expressed in dollars of taxes per \$1,000 of personal income. It is assumed that every state could apply the average rate were it to decide to do so; though some tradeoffs (overutilization of some sources, underutilization of others) is expected because of regional differences of economic conditions or political or social choice.

While personal income is not a perfect correlation of tax capacity in every case, it is a readily available, readily acceptable measure and possibly suffers as little from distortions as any other available statistic. Personal consumption and income tax collections and potential collections are especially closely related to personal income.⁶

An alternative proxy base is used in three cases for which personal income is obviously inappropriate. The value of natural resources severed from the land and waters is a good indicator of severance tax potential. Severance taxes cannot be productive unless a substantial extractive industry is present. The number of motor vehicles registered is the appropriate measure of the ability of a state to levy motor fuel taxes and motor vehicle license fees. In the case of motor vehicle-related taxes interstate travel has a mild distorting effect on the capacity-effort relationships.

6. In the case of liquor, beer, wine and tobacco taxes, state per capita consumption can be alleged to be a better indicator of capacity. However, data on per capita consumption usually rely on state reports of volume of taxed goods as reported by state revenue departments or deliveries by manufacturers and distributors. Interstate consumer purchases due to different price levels and tax rates go unrecognized. If national per capita average consumption figures are depended upon interstate differences in consumption levels go unrecognized. Total personal income is closely related to total population. Thus the income measure places the tax potential where the people reside, not where they traditionally purchase the taxed goods.

Two other points are worthy of mention. First, net profits of public owned utilities and liquor stores are considered to be taxes. Profits are assumed to be in lieu of taxes usually imposed on private enterprises. Second, no constitutional, political or social constraints on tax policy are recognized. All resources generally taxable in several states could be taxed if located in a state.

Finally, two areas of weaknesses in the SREB reports must be acknowledged. Personal income is not a fully appropriate proxy base for all of the property taxes--possibly for a maximum of two-thirds, the part that is actually a burden on jurisdictional residents. Second, personal income is not a fully appropriate proxy base for all of the corporation income taxes. Again, it seems perfectly appropriate for that portion not exported to nonresidents, but not for the total amount. Portions of wealth and corporation activity relative to export activities do not seem to be directly related to personal income attributed to the jurisdiction. A multiple proxy base would be more appropriate. Tax capacity is greater in these two areas as export is related to local activity for business firms. The extent to which relative capacities are disoriented is uncertain.

Growth in Collections, Capacity and Underutilized Capacity

The nation's state-local tax collections are a composite from several sources in each of the 50 states and the District of Columbia. The level of collections results from a compromise between the perceived needs of government services and the capacity and willingness of the private sector to support public functions. Growth in the state and local taxation is a function of the growth in capacity and in the intens-

ity of use of the capacity. From 1961 to 1975, both the economic bases for taxation and the average rates applied against the bases increased.

State and local taxes increased by 266 percent while personal income increased by only 188.6 percent from 1961 to 1975. Taxes rose to \$143.0 billion from \$39.1 billion (Table 1). Personal income reached \$1,195.9 billion, up from \$414.4 billion. In 1961, taxes represented 9.4 percent of personal income, and in 1975, they equalled 12 percent.

In constant dollars, state and local tax growth from 1961 to 1975 registered 71 percent (Table 2). While growth was substantial in current dollars in the last three years of the period, there was a mere 2.5 percent increase in constant dollar collections. In the last year, 1974 to 1975, there was a constant dollar decrease of 1 percent.

Tables 1 and 2 data indicate that taxes grew unevenly in the nation's regions. In general, taxation in the traditionally low-tax states increased more rapidly than in the high-tax states. Southern states, especially demonstrated impressive growth. In constant dollars, the New England, Middle Atlantic and North Central regions actually showed a decline in tax collections from 1972 to 1975, while considerable growth is evident in the Southern and Mountain regions.

An almost identical analysis can be made for tax capacity (potential) growth and its distribution (see Tables 3 and 4). In current dollars, growth was substantial throughout the period, but most of the growth is attributed to inflation after 1972. Constant dollar growth was substantial through the 1960's decade and up to 1972; but leveled off thereafter. The one thing that is certain from available statistics is that the quality and quantity of per capita public services financed

TABLE 1
STATE AND LOCAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1975,
BY REGION, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Region	1975		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
New England States	\$ 8,893,209	360	\$ 7,248,331	294	\$ 5,565,815	226	\$ 3,816,598	155	\$ 2,467,743	100
Middle Atlantic States	31,894,012	355	25,251,088	281	19,955,840	222	14,086,900	157	8,980,256	100
North Central States	37,200,624	332	29,655,184	265	24,257,552	217	16,784,640	150	11,190,133	100
SREB States	33,669,412	410	24,625,696	300	19,607,440	239	13,575,200	165	8,216,668	100
Mountain States	7,389,249	364	5,410,840	267	4,286,026	211	3,143,300	155	2,028,275	100
Pacific States	23,419,227	376	17,743,520	285	14,294,534	230	10,125,100	163	6,227,968	100
District of Columbia	543,600	142	457,700	119	384,067	100*	--	--	--	--
TOTAL	\$143,009,333	366	\$110,392,160	282	\$88,351,072	226	\$61,531,536	157	\$39,110,944	100

*1967=100. The District is not included in previous years.

SOURCE: Kenneth E. Quindry, William A. Perry and Irma Perry, Taxes and Higher Education: A Look at Actual and Potential Revenues (Atlanta: Southern Regional Education Board, 1976), Table 3; and Kenneth E. Quindry, State and Local Revenue Potential, 1975 (Southern Regional Education Board, 1976), Table 21.

TABLE 2

STATE AND LOCAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1975,
BY REGION, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

Region	1975		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
New England States	\$ 3,792,413	168	\$ 3,945,740	175	\$ 3,381,413	150	\$ 2,798,089	124	\$ 2,255,704	100
Middle Atlantic States	13,600,858	166	13,745,842	167	12,123,854	148	10,327,636	126	8,208,639	100
North Central States	15,868,806	155	16,143,290	158	14,737,309	144	12,305,462	120	10,228,635	100
SREB States	14,357,958	191	13,405,411	178	11,912,188	159	9,952,489	133	7,510,660	100
Mountain States	3,151,066	170	2,945,471	159	2,603,901	140	2,304,469	124	1,853,995	100
Pacific States	9,986,877	175	9,658,974	170	8,684,399	153	7,423,089	130	5,692,836	100
District of Columbia*	231,812	99	249,156	107	233,333	100	--	--	--	--
TOTAL	\$60,984,790	171	\$60,093,664	168	\$53,676,192	150	\$45,111,088	126	\$35,750,400	100

*1970=100. The District is not included in previous years.

SOURCE: Kenneth E. Quindry, William A. Perry and Irma Perry, Taxes and Higher Education: A Look at Actual and Potential Revenues (Atlanta: Southern Regional Education Board, 1976), Table 4; and Kenneth E. Quindry, State and Local Revenue Potential, 1975 (Southern Regional Education Board, 1976), Table 21.

TABLE 3
STATE AND LOCAL POTENTIAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1975,
BY REGION, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Region	1975		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
New England States	\$ 8,699,927	321	\$ 6,887,693	254	\$ 5,614,859	207	\$ 4,135,127	153	\$ 2,708,644	100
Middle Atlantic States	28,966,236	301	23,225,712	241	18,800,928	195	13,633,527	142	9,632,021	100
North Central States	41,023,621	328	31,812,672	254	25,955,744	207	19,153,616	153	12,516,320	100
SREB States	40,788,432	403	30,090,704	297	23,371,008	231	16,349,032	161	10,126,163	100
Mountain States	8,318,580	371	5,968,940	266	4,626,155	206	3,267,478	146	2,241,862	100
Pacific States	21,556,732	363	16,295,816	275	13,113,349	221	9,305,452	157	5,931,812	100
District of Columbia	623,428	305	507,448	249	421,202	206	312,755	153	204,072	100
TOTAL	\$149,976,958	346	\$114,788,480	265	\$91,902,944	212	\$66,156,624	153	\$43,360,720	100

SOURCE: Kenneth E. Quindry, William A. Perry and Irma Perry, Taxes and Higher Education: A Look at Actual and Potential Revenues (Atlanta: Southern Regional Education Board, 1976), Table 11; and Kenneth E. Quindry, State and Local Revenue Potential, 1975 (Southern Regional Education Board, 1976), Table 21.

TABLE 4
STATE AND LOCAL POTENTIAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1975,
BY REGION, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

Region	1975		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
New England States	\$ 3,709,990	150	\$ 3,749,420	151	\$ 3,411,211	138	\$ 3,031,614	122	\$ 2,475,904	100
Middle Atlantic States	12,352,339	142	12,643,319	144	11,422,214	130	9,995,251	114	8,804,402	100
North Central States	17,494,081	156	17,317,728	151	15,769,033	138	14,042,260	123	11,440,871	100
SREB States	17,393,788	186	16,380,372	177	14,198,697	153	11,986,091	129	9,256,084	100
Mountain States	3,547,369	169	3,249,282	159	2,810,538	137	2,395,509	117	2,049,230	100
Pacific States	9,192,636	165	8,870,877	164	7,966,788	147	6,822,174	126	5,422,126	100
District of Columbia	265,854	147	276,237	148	255,894	137	229,292	123	186,537	100
TOTAL	\$63,956,059	161	\$ 62,486,880	158	\$55,834,006	141	\$48,501,920	122	\$39,635,008	100

SOURCE: Kenneth E. Quindry, William A. Perry and Irma Perry, Taxes and Higher Education: A Look At Actual and Potential Revenues (Atlanta: Southern Regional Education Board, 1976), Table 12; and Kenneth E. Quindry, State and Local Revenue Potential, 1975 (Southern Regional Education Board, 1976), Table 21.

by taxation has increased. Population increased by 16.4 percent and constant dollar taxes, by 71 percent from 1961 to 1975. As expected, regional growth both in capacity and in collections closely paralleled regional economic and population growth.

In current dollars, net underutilization of tax capacity increased by 63.9 percent from 1961 to 1975 (Table 5). When reduced to constant dollars, the underutilization was still a substantial \$3.0 billion, but still a decline of almost one-third (Table 6). The New England, the Middle Atlantic, and the Pacific regions tend to overutilize and the other regions to underutilize their capacity. The major offenders in overutilization have generally been Massachusetts, New York, Minnesota, Wisconsin and California. In 1975, a total of eight states and three regions overutilized their capacity.⁷ A substantial share of the underutilization is found in the Southern region where every state conceivably could collect additional revenue without exceeding the 50-state average. In net underutilization, the Southern region underutilization exceeds that of the nation.

The statistics presented in Tables 1-6 indicate that tax capacity and performance is becoming more uniform in the U.S. regions. This is true in regard to both tax sources and rates and bases. As uniformity is achieved, underutilization tends to decline and finally to disappear. A few states still do not employ general sales and income taxes and underutilization is significant in these areas. If all states use a

7. These states were Massachusetts and Vermont in the New England region, New York in the Middle Atlantic region, Minnesota and Wisconsin in the North Central region, Arizona in the Mountain region, and California and Hawaii in the Pacific region. Overutilization is possible because capacity is not conceived as an absolute measure. In another sense, and perhaps more technically accurate, these states used their capacity to tax at rates above the 50-state average.

TABLE 5

STATE AND LOCAL UNDERUTILIZED TAX POTENTIAL,
SELECTED YEARS, 1961 TO 1975,
BY REGION, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Region	1975		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
New England States (-)	\$ 193,281		(-) \$ 360,638		\$ 49,044		\$ 318,529		\$ 240,901	100
Middle Atlantic States (-)	2,927,775		(-) 2,025,376		(-) 1,154,912		(-) 453,373		651,765	100
North Central States	3,822,997		2,157,488		1,698,192		2,368,976		1,326,187	100
SREB States	7,119,020		5,465,008		3,763,568		2,773,832		1,909,495	100
Mountain States	929,331		558,100		340,129		124,178		213,587	100
Pacific States	(-) 1,862,494		(-) 1,447,704		(-) 1,181,185		(-) 819,648		(-) 296,156	100
District of Columbia	79,828		49,744		37,135		312,755*		204,072	100
Total Overutilized	4,983,550		(-) 3,833,718		(-) 2,336,097		(-) 1,273,021		(-) 296,156	100
Total Underutilized	11,951,176		8,230,344		5,888,068		5,898,270		4,546,007	100
Total Difference	\$ 6,967,626		\$4,396,626		\$3,551,971		\$4,625,249		\$4,249,851	100

* No collection data available for these years.

NOTE: (-) denotes overutilization of taxes in this region.

SOURCE: Quindry, Perry and Perry, *op. cit.*, Table 19.

TABLE 6
STATE AND LOCAL UNDERUTILIZED TAX POTENTIAL,
SELECTED YEARS, 1961 TO 1975,
BY REGION, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

Region	1975	1972		1970		1967		1961	
	Amount	Amount	Index	Amount	Index	Amount	Index	Amount	Index
New England States	(-) \$ 82,423	(-) \$ 196,320		\$ 29,798		\$ 233,525		\$ 220,200	
Middle Atlantic States	(-) 1,248,518	(-) 1,102,523		(-) 701,640		(-) 332,385		595,763	
North Central States	1,630,276	1,174,438		1,031,724		1,736,798		1,212,236	
SEEB States	3,035,829	2,974,961		2,286,509		2,033,602		1,745,424	
Mountain States	396,303	303,811		206,637		91,040		195,235	
Pacific States	(-) 794,241	(-) 788,097		(-) 717,611		(-) 600,915		(-) 270,710	
District of Columbia	34,042	27,081		22,561		229,292*		186,537*	
Total Overutilized	(-) 2,125,182	(-) 2,086,940		(-) 1,419,251		(-) 933,300		(-) 270,710	
Total Underutilized	3,096,450	4,480,291		3,577,279		4,324,257		4,155,395	
Total Difference	2,971,268	\$2,393,351		\$2,157,978		\$3,390,957		\$3,884,685	

* No collection data for District of Columbia in these years.

NOTE: (-) denotes overutilization of taxes in this region.

SOURCE: Quindry, Perry and Perry, *op. cit.*, Table 20.

particular tax over and underutilization cancel out, but state and regional performing above or below average are identified by the techniques employed in the SREB studies.

The statistics in Tables 1-6 also indicate that the situs of tax capacity and collections is following the migration of populations and economic activity. This is summarized in Table 7. Population, personal income, and tax capacity and collections have shifted from the eastern seaboard toward the south and west. The migration of collections has lagged so that the Northeastern, the Middle Atlantic and the Pacific states had a higher percentage of the nation's collections than of capacity.

Tables 8-13 trace the development of tax collections, capacity, and underutilized capacity by source. Data are presented in both current and constant dollars. Tables 12 and 13 reflect gross underutilization--underutilizations are not offset by overutilizations. In current dollars, over or underutilization for each tax is the amount reported in Table 10 (capacity) less the amount reported in Table 8 (collections).

In current figures, gross underutilization increased from \$9.1 billion to \$27.2 billion, almost threefold, from 1961 to 1975. When offset by overutilizations, however, the growth was from \$4.3 billion to just under \$7.0 billion, a 62.7 percent growth. Growth in capacity was especially great in the tax areas closely related to personal income (or for which personal income was used as an allocator). Relative growth rates depend on a tax's responsiveness growth in its capacity measure (or proxy base). For example, personal income taxes generally grow from 1.3 to 1.7 times as fast as personal income and general sales taxes,

TABLE 7
STATE AND LOCAL TAX COLLECTIONS, POPULATION, AND PERSONAL INCOME,
REGIONAL COMPARISONS, 1961 AND 1975

Region	1975				1961			
	Taxes		Population (Percent)	Personal Income (Percent)	Taxes		Population (Percent)	Personal Income (Percent)
	Capacity (Percent)	Collections (Percent)			Capacity (Percent)	Collections (Percent)		
New England States	5.8	6.2	5.7	6.0	6.2	6.3	5.8	6.4
Middle Atlantic States	19.3	22.3	17.8	19.5	22.2	23.0	19.3	22.3
North Central States	27.4	26.0	27.1	27.8	28.9	28.6	28.5	29.2
SREB States	27.2	23.5	30.1	26.4	23.4	21.0	28.8	22.6
Mountain States	5.5	5.2	5.8	5.2	5.2	5.2	5.2	4.8
Pacific States	14.4	16.4	13.2	14.6	13.7	15.9	12.0	14.2
District of Columbia	0.4	0.4	0.3	0.4	0.5	n.a.	0.4	0.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: U.S. Department of Commerce, *Survey of Current Business*, August 1976, Table 1; U.S. Bureau of the Census, *Statistical Abstract of the United States: 1966* (87th Edition), Washington, D. C., 1966, p. 11; Kenneth E. Quindry, William A. Perry and Irma Perry, *State and Local Potential to Support Higher Education* (Knoxville, The University of Tennessee, 1976) Table C and 31; and Kenneth E. Quindry, *State and Local Revenue Potential, 1975* (Atlanta: Southern Regional Education Board, 1976), Tables 11 and 21.

TABLE 8

STATE AND LOCAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1975,
BY TYPE OF TAX, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1975		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	\$ 29,101,456	541	\$ 20,292,112	377	\$16,078,032	299	\$10,103,909	188	\$ 5,378,735	100
Alcoholic Beverages	2,492,818	263	2,127,999	224	1,891,079	199	1,367,388	144	949,239	100
Tobacco Products	3,394,351	321	2,999,030	283	2,437,000	230	1,712,252	162	1,058,966	100
Insurance	1,750,886	294	1,479,296	248	1,182,134	199	866,481	146	595,437	100
Public Utilities	4,181,587	628	3,368,608	506	2,648,931	398	1,142,025	172	665,625	100
Other Selective Sales	1,442,704	762	996,006	526	706,875	374	253,716	134	189,238	100
Death and Gift	1,417,965	283	1,291,524	258	1,003,185	200	795,499	159	501,182	100
Property	51,496,154	287	42,132,224	235	34,082,720	190	26,185,776	146	17,939,968	100
Individual Income	21,454,189	911	15,233,750	647	10,794,540	458	5,775,140	245	2,354,622	100
Corporate Income	6,642,100	525	4,401,460	348	3,756,266	297	2,226,633	176	1,266,250	100
Alcoholic Beverage License	143,343	166	136,066	158	119,604	138	138,390	160	86,360	100
Motor Vehicle License	3,957,488	246	3,333,576	207	2,904,050	181	2,299,014	143	1,607,446	100
Motor Vehicle Fuels	8,323,983	241	7,271,941	211	6,318,196	183	4,856,299	141	3,451,239	100
Severance	1,741,178	386	757,598	168	685,892	152	577,085	128	450,995	100
Transfer*	405,322	--	505,267	231	382,105	175	218,405	100	--	--
Other	5,059,809	193	4,065,787	155	3,360,549	128	3,013,590	115	2,615,709	100
TOTAL	\$ 143,009,333	366	\$110,392,160	282	\$88,351,072	226	\$61,531,536	157	\$39,110,944	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Kenneth E. Quindry, William A. Perry and Irma Perry, State and Local Potential to Support Higher Education (Knoxville: The University of Tennessee, Center for Business and Economic Research, 1976), Table 1; and Kenneth E. Quindry, op. cit., Tables 1-12.

TABLE 9
STATE AND LOCAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1975,
BY TYPE OF TAX, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1975		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	\$12,410,003	252	\$ 11,046,332	225	\$ 9,767,942	199	\$ 7,407,561	151	\$ 4,916,577	100
Alcoholic Beverages	1,063,035	123	1,158,409	134	1,148,893	132	1,002,484	116	867,677	100
Tobacco Products	1,447,484	150	1,632,569	169	1,480,559	153	1,255,317	130	967,976	100
Insurance	746,646	137	805,278	148	718,186	132	635,250	117	544,275	100
Public Utilities	1,783,193	293	1,833,755	301	1,609,314	265	837,262	138	608,432	100
Other Selective Sales	615,226	356	542,192	313	429,450	248	186,009	108	172,978	100
Death and Gift	604,676	132	703,062	153	609,468	133	583,211	127	458,119	100
Property	21,959,980	134	22,935,328	140	20,706,384	126	19,197,776	117	16,398,510	100
Individual Income	9,148,908	425	8,292,733	385	6,558,044	305	4,233,975	197	2,152,305	100
Corporate Income	2,832,452	245	2,396,004	207	2,282,057	197	1,632,429	141	1,157,499	100
Alcoholic Beverage License	61,127	77	74,070	94	72,663	92	101,459	129	78,940	100
Motor Vehicle License	1,687,628	115	1,814,684	124	1,764,307	120	1,685,494	115	1,469,329	100
Motor Vehicle Fuels	3,549,673	113	3,958,596	125	3,838,515	122	3,560,338	113	3,154,697	100
Severance	742,507	180	412,410	100	416,702	101	423,083	103	412,244	100
Transfer*	172,845	108	275,050	172	232,142	145	160,121	100	--	--
Other	2,157,701	90	2,213,275	93	2,041,645	85	2,209,377	92	2,390,959	100
TOTAL	\$60,984,790	171	\$ 60,093,664	168	\$53,676,192	150	\$45,111,088	126	\$35,750,400	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry and Perry, op. cit., Table 2; and Kenneth E. Quindry, op. cit., Tables 1-12.

TABLE 10

STATE AND LOCAL POTENTIAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1975
BY TYPE OF TAX, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1975		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	\$ 29,699,926	442	\$ 20,695,568	308	\$16,391,435	244	\$10,652,890	159	\$ 6,719,933	100
Alcoholic Beverages	2,492,818	261	2,127,980	223	1,891,063	198	1,374,705	144	954,792	100
Tobacco Products	3,394,351	310	2,999,010	274	2,436,978	222	1,755,879	160	1,095,863	100
Insurance	1,758,708	294	1,486,329	248	1,188,179	198	871,124	145	598,919	100
Public Utilities	4,306,306	576	3,472,581	465	2,648,914	354	1,246,591	167	747,443	100
Other Selective Sales	1,482,216	742	1,025,014	513	714,904	358	292,395	146	199,825	100
Death and Gift	1,428,649	283	1,301,472	258	1,005,995	199	801,795	159	505,193	100
Property	51,496,154	285	42,131,872	233	34,082,432	189	26,325,888	146	18,044,880	100
Individual Income	26,473,557	620	18,619,968	436	13,207,847	309	8,354,153	196	4,271,601	100
Corporate Income	7,214,358	389	4,762,193	256	4,466,875	241	3,139,986	169	1,856,971	100
Alcoholic Beverage License	148,664	170	137,312	157	120,728	138	139,663	160	87,199	100
Motor Vehicle License	3,957,488	246	3,333,559	207	2,904,030	181	2,304,867	143	1,607,435	100
Motor Vehicle Fuels	8,323,983	241	7,271,919	211	6,318,175	183	4,868,683	141	3,451,219	100
Severance	2,167,392	359	950,144	157	877,957	145	732,831	121	603,798	100
Transfer*	572,578	203	407,847	145	286,991	102	281,657	100	--	--
Other	5,059,809	193	4,065,787	155	3,360,549	128	3,013,590	115	2,615,709	100
TOTAL	\$149,976,958	346	\$114,788,480	265	\$91,902,944	212	\$66,156,624	153	\$43,360,720	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry and Perry, *op. cit.*, Table 9; and Kenneth E. Quindry, *op. cit.*, Tables 1-12.

TABLE 11
STATE AND LOCAL POTENTIAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1975,
BY TYPE OF TAX, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1975		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	\$12,665,214	206	\$11,265,960	183	\$ 9,958,345	162	\$ 7,810,040	127	\$ 6,142,535	100
Alcoholic Beverages	1,063,035	122	1,158,399	133	1,148,884	132	1,007,849	115	872,753	100
Tobacco Products	1,447,484	145	1,632,558	163	1,480,545	148	1,287,301	129	1,001,703	100
Insurance	749,982	137	809,107	148	721,858	132	638,651	117	547,458	100
Public Utilities	1,836,378	269	1,890,354	277	1,609,303	236	913,923	134	683,220	100
Other Selective Sales	632,075	346	557,983	305	434,328	238	214,366	117	182,655	100
Death and Gift	609,232	132	708,477	153	611,176	132	587,827	127	461,785	100
Property	21,959,980	133	22,935,152	139	20,706,208	126	19,300,512	117	16,494,407	100
Individual Income	11,289,363	289	10,136,074	260	8,024,208	206	6,124,748	157	3,904,571	100
Corporate Income	3,076,485	181	2,592,375	153	2,713,775	160	2,302,043	136	1,697,414	100
Alcoholic Beverage License	63,396	80	74,748	94	73,346	92	102,392	128	79,707	100
Motor Vehicle License	1,687,628	115	1,814,675	124	1,764,295	120	1,689,785	115	1,469,319	100
Motor Vehicle Fuels	3,549,673	113	3,958,584	125	3,838,502	122	3,569,417	113	3,154,679	100
Severance	924,261	167	517,226	94	533,388	97	537,266	97	551,918	100
Transfer*	244,170	113	222,018	108	174,357	84	206,493	100	--	--
Other	2,157,701	90	2,213,275	93	2,041,645	85	2,209,377	92	2,390,959	100
TOTAL	\$63,956,059	161	\$62,486,880	158	\$55,834,096	141	\$48,501,920	122	\$39,635,008	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry and Perry, op. cit., Table 10; and Kenneth E. Quindry, op. cit., Tables 1-12.

TABLE 12

STATE AND LOCAL UNDERUTILIZED TAX POTENTIAL,
SELECTED YEARS, 1961 TO 1975,
BY TYPE OF TAX, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1975		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	\$ 4,123,191	197	\$ 2,529,568	121	\$ 2,078,142	100	\$ 2,041,998	98	\$ 2,088,537	100
Alcoholic Beverages	576,442	239	506,989	210	473,536	196	348,285	144	241,540	100
Tobacco Products	423,286	224	346,428	184	280,370	149	282,259	150	188,591	100
Insurance	181,137	385	141,566	301	84,406	179	66,483	141	47,084	100
Public Utilities	1,082,960	442	825,470	337	795,601	325	408,924	167	244,784	100
Other Selective Sales	679,502	690	497,575	505	311,735	317	189,828	193	98,481	100
Death and Gift	304,330	284	291,861	272	218,034	203	165,987	155	107,269	100
Property	7,167,426	354	5,585,114	276	3,988,579	197	3,027,835	149	2,026,713	100
Individual Income	8,597,022	352	5,962,402	244	4,951,891	203	4,075,571	167	2,442,900	100
Corporate Income	1,727,083	212	1,271,461	156	1,439,373	176	1,319,053	162	815,898	100
Alcoholic Beverage License	45,910	145	44,426	141	41,447	131	57,230	181	31,592	100
Motor Vehicle License	486,713	237	425,981	207	361,066	176	309,764	151	205,595	100
Motor Vehicle Fuels	541,624	239	369,168	163	272,390	120	268,895	119	226,676	100
Severance	919,601	292	424,304	135	409,060	130	357,820	113	315,364	100
Transfer*	380,278	183	268,856	130	196,526	95	207,490	100	0	--
Other	0		0	0	0	0	0	0	0	100
TOTAL	\$27,236,505	300	\$19,491,136	215	\$15,902,156	175	\$13,127,422	145	\$ 9,080,934	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry and Perry, op. cit., Table 17; and Kenneth E. Quindry, op. cit., Tables 2 and 12.

TABLE 13

STATE AND LOCAL UNDERUTILIZED TAX POTENTIAL,
SELECTED YEARS, 1961 TO 1975,
BY TYPE OF TAX, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1975		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	\$ 1,758,290	92	\$ 1,377,010	72	\$ 1,262,540	66	\$ 1,497,066	78	\$ 1,909,083	100
Alcoholic Beverages	245,817	111	275,987	125	287,689	130	255,341	116	220,786	100
Tobacco Products	180,506	105	188,584	109	170,334	99	206,935	120	172,387	100
Insurance	77,244	179	77,064	179	51,279	119	48,741	113	43,038	100
Public Utilities	461,817	206	449,358	201	483,354	216	299,798	134	223,751	100
Other Selective Sales	289,766	322	270,863	301	189,389	210	139,170	155	90,019	100
Death and Gift	129,778	132	158,879	162	132,463	135	121,691	124	98,052	100
Property	3,056,472	165	3,040,345	164	2,423,195	131	2,219,821	120	1,852,571	100
Individual Income	3,666,107	164	3,245,728	145	3,008,439	135	2,987,956	134	2,232,998	100
Corporate Income	736,496	99	692,140	93	874,467	117	967,048	130	745,711	100
Alcoholic Beverage License	19,578	68	24,184	84	25,180	87	41,957	145	28,878	100
Motor Vehicle License	207,554	110	231,890	123	219,360	117	227,100	121	187,930	100
Motor Vehicle Fuels	230,970	111	200,962	97	165,486	80	197,137	95	207,199	100
Severance	392,154	136	230,977	80	248,518	86	262,332	91	288,267	100
Transfer*	162,165	107	146,356	96	119,396	78	152,119	100	0	0
Other	0	--	0	0	0	0	0	0	0	100
TOTAL	\$ 11,614,714	140	\$10,610,319	128	\$ 9,661,085	116	\$ 9,624,207	116	\$ 8,300,666	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry and Perry, op. cit., Table 18; and Kenneth E. Quindry, op. cit., Tables 2 and 12.

near the same rate. Selective sales taxes generally grow less rapidly because the tax base is closely related to relatively slow-growing factors (i.e., population and per capita consumption).

Tax collections and thereby underutilization, are influenced by (in addition to growth in capacity), the extension of tax bases and the increase in tax rates. Each represents an increase in tax effort. Effort has increased during the 14-year period; but the relationship of capacity to effort growth has also left leeway for an increase in underutilization. Property and income tax underutilization and consumption tax overutilization are especially great in the Southern states. The net result is highly regressive tax systems in some Southern states. Regression is inversely related to the amount of dependence placed on income related taxes.

Table 15 summarizes the distribution of tax collections in 1961 and 1975. A substantial decline in dependence on property taxes and an increase in dependence on consumption and income taxes are indicated. The magnitude of the changes was significant, but somewhat offsetting in many respects. Growth in consumption tax relative use was more than offset by the decline in the property taxes. Dependence on the motor vehicle related taxes (motor fuel and licenses) also declined appreciably. Part of the shift from 1961 to 1975 was due to legislative action and part due to the relative responsiveness of the various taxes. In the absence of legislative change, the more responsive taxes (income related) increase the position in the tax structure and less responsive taxes decline.

TABLE 14

STATE AND LOCAL TAX CAPACITY AND CAPACITY UTILIZATION,
PER CAPITA AND PER \$1000 OF PERSONAL INCOME,
FOR STATES, REGIONS AND THE UNITED STATES,
1975

State and Region	Actual Collections (1,000)	Net Unutilized Capacity (1,000)	Tax Capacity (Columns 1 + 2) (1,000)	Percent of Capacity Unutilized	Taxes Per Capita		Taxes Per \$1,000 of Personal Income	
					Capacity	Utilized	Capacity	Utilized
New England States	\$ 8,893,209	\$- 193,281	\$ 8,699,927	--	\$713.23	\$ 729.07	\$121.27	\$123.96
1 Connecticut	2,161,648	305,633	2,467,281	12.4	797.18	698.43	119.52	104.72
2 Maine	605,046	11,636	616,682	1.9	592.33	571.34	125.58	123.21
3 Massachusetts	4,741,537	- 569,217	4,172,319	--	715.91	813.58	120.46	136.90
4 New Hampshire	455,444	66,823	522,267	12.8	638.47	556.78	127.35	111.06
5 Rhode Island	599,559	42,324	641,883	6.6	692.43	646.77	122.50	114.42
6 Vermont	329,975	- 50,479	279,495	--	593.41	700.58	126.35	149.17
Middle Atlantic States	\$ 31,894,012	\$-2,927,775	\$ 28,966,236	--	\$ 765.45	\$ 842.82	\$123.99	\$136.52
7 Delaware	427,693	105,472	533,165	19.8	920.84	738.68	141.20	113.27
8 New Jersey	5,314,303	430,928	5,745,231	7.5	785.30	726.39	121.89	112.74
9 New York	18,574,623	-4,791,885	13,782,737	--	760.64	1,025.09	119.09	160.50
10 Pennsylvania	7,577,393	1,327,711	8,905,104	14.9	752.95	640.69	132.96	113.14
North Central States	\$ 37,200,624	\$ 3,822,997	\$ 41,023,621	9.3	\$711.36	\$ 645.07	\$123.24	\$111.76
11 Illinois	8,153,645	569,359	8,723,004	6.5	782.68	731.60	120.31	112.65
12 Indiana	3,093,950	367,614	3,466,564	10.6	652.71	583.50	121.24	108.39
13 Iowa	1,873,889	95,257	1,969,146	4.8	686.11	652.92	123.60	117.62
14 Kansas	1,388,335	255,733	1,644,068	15.6	725.22	612.41	127.10	107.33
15 Michigan	6,331,502	498,493	6,829,995	7.3	745.88	691.44	124.17	115.11
16 Minnesota	2,975,428	- 256,481	2,718,946	--	692.55	757.88	124.93	136.71
17 Missouri	2,504,272	572,187	3,076,459	18.6	645.31	525.78	124.28	101.17
18 Nebraska	930,305	165,390	1,095,695	15.1	708.73	601.75	124.94	106.08
19 North Dakota	391,038	52,324	443,362	11.8	698.21	615.81	129.35	114.09
20 Ohio	5,845,797	1,786,025	7,631,822	23.4	709.34	543.34	124.59	95.43
21 South Dakota	376,627	38,255	414,882	9.2	607.44	551.43	129.00	117.10
22 Wisconsin	3,330,836	- 321,158	3,009,677	--	653.28	722.99	121.22	134.15

TABLE 14

(Continued)

State and Region	Actual Collections (1,000)	Net Unutilized Capacity (1,000)	Tax Capacity (Columns 1 + 2) (1,000)	Percent of Capacity Unutilized	Taxes Per Capita		Taxes Per \$1,000 of Personal Income	
					Capacity	Utilized	Capacity	Utilized
SRED States	\$ 33,669,412	\$ 7,119,020	\$ 40,788,432	17.5	\$636.25	\$ 525.28	\$129.29	\$106.72
23 Alabama	1,547,885	505,379	2,053,264	24.6	568.14	428.30	131.21	98.92
24 Arkansas	872,446	263,805	1,136,251	23.2	536.98	412.31	128.42	98.60
25 Florida	4,457,970	1,210,415	5,668,385	21.4	678.28	533.44	125.85	98.98
26 Georgia	2,526,574	444,229	2,970,803	15.0	603.09	512.91	125.03	106.33
27 Kentucky	1,707,505	306,160	2,013,665	15.2	592.95	502.63	130.91	111.01
28 Louisiana	2,167,392	369,315	2,536,707	14.6	669.14	571.72	146.02	124.76
29 Maryland	2,989,823	111,689	3,101,512	3.6	756.84	729.58	122.22	117.62
30 Mississippi	1,072,305	104,180	1,176,485	8.9	501.49	457.08	128.90	117.49
31 North Carolina	2,697,040	501,319	3,198,359	15.7	586.75	494.78	126.65	106.80
32 South Carolina	1,282,081	263,641	1,545,722	17.1	548.52	454.96	126.00	104.51
33 Tennessee	1,989,354	508,168	2,497,522	20.3	596.35	475.01	129.18	102.90
34 Texas	6,516,262	1,829,532	8,345,794	21.9	682.01	532.50	132.98	103.83
35 Virginia	2,866,010	550,579	3,416,589	16.1	667.86	577.01	126.16	105.63
36 West Virginia	976,765	150,611	1,127,376	13.4	625.28	561.74	136.95	118.66
Mountain States	\$ 7,389,249	\$ 929,331	\$ 8,318,580	11.2	\$ 673.19	\$597.98	\$132.95	\$118.09
37 Arizona	1,509,499	- 22,034	1,487,464	--	668.82	678.73	130.31	132.24
38 Colorado	1,625,925	194,352	1,820,277	10.7	718.34	661.64	127.40	113.79
39 Idaho	444,431	73,141	517,572	14.1	631.19	541.99	131.16	112.63
40 Montana	467,933	37,250	505,183	7.4	675.38	625.58	133.09	123.28
41 Nevada	457,719	42,228	499,947	8.4	844.51	773.17	137.94	126.29
42 New Mexico	637,551	67,009	704,560	9.5	614.26	555.84	144.33	130.61
43 Oklahoma	1,347,235	378,980	1,726,215	22.0	636.51	496.77	133.01	103.81
44 Utah	633,516	103,524	737,040	14.0	611.14	525.30	132.32	113.74
45 Wyoming	265,440	34,882	320,322	17.1	856.48	709.73	154.58	128.09
Pacific States	\$ 23,419,227	\$ -1,862,494	\$ 21,556,732	--	\$ 763.50	\$829.47	\$123.65	\$134.34
46 Alaska	299,648	63,849	363,497	17.6	1,032.66	851.27	134.16	110.59
47 California	18,401,630	-2,037,809	16,363,820	--	772.42	868.62	123.22	138.57
48 Hawaii	741,249	- 106,532	634,716	--	733.78	850.94	119.60	139.67
49 Oregon	1,493,194	69,146	1,564,340	4.4	683.72	653.49	125.90	120.33
50 Washington	2,481,508	148,853	2,630,359	5.7	742.20	700.20	124.72	117.66
District of Columbia	\$ 543,600	\$ 79,828	\$ 623,428	12.8	\$ 870.71	\$759.22	\$117.21	\$102.20
All States including District of Columbia	\$143,009,333	\$ 6,967,625	\$149,976,958	4.6	\$ 703.71	\$ 671.01	\$ 125.41	\$ 119.58

SOURCE: Kenneth E. Quindry, *op. cit.*, Table 21.

TABLE 15

THE DISTRIBUTION OF STATE AND LOCAL TAX COLLECTIONS,
BY SOURCE, 1961 AND 1975

Tax Source	Percentage Distribution	
	1961	1975
General Sales and Gross Receipts	13.8	20.3
Selective Sales Taxes	8.8	9.3
Property Taxes	45.9	36.0
Personal Income Taxes	6.0	15.0
Corporation Income Taxes	3.2	4.6
Motor Vehicle Related Taxes	12.9	8.6
Other Taxes	9.4	6.2
TOTAL	100.0	100.0

SOURCE: Quindry, Perry and Perry, op. cit., Table 1; and Kenneth E. Quindry, op. cit., Tables 1-11.

PART III

CONCLUDING REMARKS ON MEASURING TAX CAPACITY,
BURDENS AND EFFORTIntroduction

In the U.S. federal system, it is generally acknowledged that most domestic functions should be performed by the states. States, in turn, assign a large part of their administrative responsibilities to their subdivisions. In recent decades, federal involvement with administrative efficiency and financing of domestic functions has increased.⁸ As the federal involvement increases, the federal government acquires additional responsibility for equalizing both interstate and intrastate public service benefits and costs within tolerable limits. Because the states retain significant administrative and taxing responsibilities, they are no less interested in equalizing benefits and costs.

Equalizing costs of government involves the revision both of the federal, state and local tax systems and of the system of government grants. As long as local jurisdictions retain substantial taxing authority, tax systems are likely to remain inequitable--that is, income regres-

8. The impetus for the increased federal interest comes from two sources. First is the constitutional provision of "equal protection." Second is the growing concern that the constitutional provisions are not being honored, either on the demand or supply sides. The rationale for some movement toward centralization of taxing authority and continued decentralization of administration is explained as follows: The central government, followed by state governments are superior to local units in the efficiency and equity of tax collections. The federal government must assume the responsibility to advance equitably the performance of several public programs that are increasingly becoming national in scope. However, nonuniformity in purely local matters, as well as tolerable allowances for variations in some functions of growing state and nationwide interest, must be retained if the federal system is to remain viable.

sive--and expenditure requirements fail to meet state and federal requirements. The federal and many state and most local tax systems need revision. They must then be supplemented with a revised system of equalizing grants.

A revised system of grants requires a change in the basic information employed in allocating and distributing grants. The purpose of this section is to explain why the current capacity-effort data which serve as the foundation for many federal and state grants is inadequate. In order to provide the information for preparing tax systems and grants that will equalize costs, a comprehensive 50-state study of federal-state-local tax shifting and incidence is critical. A proposal for such a study has been prepared. One of its primary goals is to measure the variations in tax burdens in the 50 states upon which to base tax reforms and grant systems. Taxes would be assigned fully at the personal level, on the basis of state averages--at the point of incidence rather than to a state. Additional work would be necessary to distinguish tax inequities within the states.

Tax Efforts and Tax Burdens

In much of the literature on the subject of cost equalization, tax effort is confused with tax burden. Confusing the two concepts tends to limit the usefulness of tax reform and grant programs. In current terminology, tax effort usually relates to tax impact. Tax burdens would relate to tax incidence. Efforts are a jurisdictional concept; burdens, an individual concept.⁹ Individual equalization is superior to

9. Tax efforts and burdens may differ in a jurisdiction depending on the ability of a jurisdiction to export its tax levies. If a jurisdiction is a net importer of taxes, tax burdens exceed tax efforts. If it is a net exporter, tax efforts exceed burdens. It is the burden (and its distribution) that should be significant in tax and grant reform proposals.

jurisdictional equalization in equalizing government costs. Public services are equitable only when every citizen has an equal opportunity to develop his individual potential regardless of his individual economic and social circumstances. Public services should be equalized on both the demand and the supply sides.¹⁰

Tax effort studies are usually attempts to compare tax collections using inadequate capacity measures. Tax effort measures should be refined to measures of tax burdens and related to a broad measure of family and individual income attributed to the jurisdiction's residents. Tax burdens should be measured at the jurisdiction of incidence and then the jurisdictional burdens assigned to an array of income classes. The distribution of the jurisdictions' tax loads are of equal significance to the total tax load related to capacity in measuring tax burdens. Given a regressive tax system and a progressive tax system of equal magnitude other things equal, the regressive system is surely more burdensome than the progressive system.

Tax Equity

This introduces the concept of tax equity. Tax equity is usually defined in terms of the distribution of a tax. It has many aspects, but it is usually defined as treating all taxpayers in equal circumstances equally and taxpayers in unequal circumstances unequally in proportion to their inequalities. If all taxpayers were in identical circumstances and all taxes were direct personal taxes there would be no problem.

10. The federal and the state governments have and are taking significant steps to equalize service levels (especially in public education) and to equalize costs at the jurisdictional level. Some notice is taken of cost inequities at the individual or family level, but corrective actions have lagged, especially in state-local tax reform.

Discovering tax incidence and the degree of variance in tax levies because of different circumstances is critical to tax equity. These problems are not solved to everyone's satisfaction. Thus there is no consensus on the concepts of tax equity and whether equity is being achieved.

Because all taxes cannot be direct personal taxes and much tax shifting is possible, researchers are concerned with estimating tax shifting (including interjurisdictional exchanges) and with the indirect effects of taxation on economic development and such. In this respect tax equity seems to be a series of tax balances:

1. Taxes must be properly balanced between personal and business taxpayers. Heavy business taxes limit the incentive to invest and create jobs and income. While business taxes are ultimately shifted to consumers, the impact has significance for location decisions.
2. Business taxes must be properly balanced among industries such as commercial, financial and manufacturing in order to provide an atmosphere for balanced growth and resource allocation.
3. Direct personal taxes must be properly balanced among family and individual taxpayers, recognizing the shifting distributional effects of indirect taxes.
4. Finally, jurisdictions must be concerned that their tax systems are reasonably in line with those of their neighbors.

Summary

In concluding this report, a few summary remarks are in order:

- (1) One purpose of intergovernmental grant programs is to provide for a better distribution of government costs. The need for grant programs can be minimized by some revision of the federal, state and local tax systems.
- (2) In order to provide the background data for accurate and comprehensive tax and grant reform programs, massive research into tax shifting and incidence is necessary.
- (3) Tax burdens should be equitable, but equity is difficult to conceptualize. The tax burdens should be defined as the family and individual tax load after all shifting has taken place. Once the incidence is established at the personal level, tax burdens can be compared with a broad based income measure and burden distribution evaluated. Interjurisdictional equalization programs should recognize both the differences in tax burdens for each income class and also differences in interclass distributions.
- (4) There is no way of providing all the necessary interstate tax exchanges short of a comprehensive 50-state tax incidence study. In each state (and finally in each major local jurisdiction), the tax burden should be assigned by income class. Until this is accomplished, and federal and state programs designed to equalize

(within tolerable limits) the cost of government on these bases, equalizing grant programs will be capricious in their effects. The SREB statistics are perhaps as well designed as any current capacity-effort study, but it is not designed to measure effort or burden distributions within the states. Intrastate tax burden studies are virtually nonexistent. In fact, a comprehensive burden study is impossible in the absence of a thorough accounting of interjurisdictional tax exchanges (tax importing and tax exporting).

Mr. JENNINGS. Thank you, Dr. Quindry. The Members are over answering various quorum calls. The House of Representatives went in early today at ten o'clock, and they ask we continue the hearings until some get back from voting.

Dr. Quindry, is it correct to say from your data that different regions of the country are moving to uniformity in taxation?

Dr. QUINDRY. As you will notice, if you could follow the statistics—I read them rather fast—the Southern States are growing in both potential and collections. In this respect, they are moving closer to the Northeast and Eastern States, but there is still a long way to go.

If you were to convert these to per capita taxes or \$1,000 personal income, or some such measure, they would still be considerably behind the Northeast and Middle Atlantic States.

Mr. JENNINGS. Thank you. I guess there are just two basic questions here which the committee would be concerned with. One is the degree to which the States have really equalized their resources and whether, with this passage of these 20 or 25 State reform laws, a substantial amount of equalization has been achieved or not achieved. And there seems to be uniformity of opinion both today and yesterday that regardless of the enactment of these measures, the States have a long way to go to achieve a very substantial degree of equalization.

So that naturally leads to the second question, which is what options are there that the Federal Government could assume in order to encourage more equalization by the States, and it seems in the past that the Nixon Administration and other administrations have backed off proposing efforts to further equalization because of the talk that this would cost \$10 billion, or \$20 billion, or \$30 billion in order to achieve full equalization. But a number of you have recommended in your prepared statements and your own statements that it wouldn't cost that much. Yesterday, the same was true; Dr. Odden recommended that at a minimum the Federal

Government should publish an index every year of the disparities between school districts within States, by State, and show which States have equalized, if by no other means than pure dollar disparity standards, and he said the Education Commission of the States, even though it receives information every year from the States on their per-pupil expenditures, does not feel comfortable in doing that now because they don't feel they can rely on their own information supplied by the States. So it seems that at a minimum somebody should be requiring information from the States to see the degree of fiscal disparity within the States.

Do you all agree with that, and can you suggest other options going from costing about nothing, to costing substantial amounts, but not getting into \$10-billion, \$15-billion options? We could start with Dr. Ginsburg.

Dr. GINSBURG. What I would primarily do is reiterate what Dr. Berke has already said, that the range of options probably falls into three kinds of categories. One is financial assistance we might be providing to States along the lines of the legislation in 842—that is, assistance to support State equalization planning efforts. This legislation has expired, and there does need to be, I think, some reconsideration as to whether we would like to renew that kind of support. In that connection, we might also think about requirements want to be placed on the States, such as the publication and reporting of information on State disparities.

Second, we might think about coordinating provisions between State and Federal programs. The best example of that, as again Dr. Berke has already indicated, is section 5(d)(2) of the impact aid provision. Right now, that is of somewhat limited application and only a few States, we believe, could qualify under this provision. It does mean that while we want to insure that districts are adequately compensated where there is a valid Federal burden, at the same time we want to make sure we don't interfere with State equalization programs.

Another program area where coordination might be improved is the handicapped. Many of the State programs pass their special need assistance through equalization programs, and we might need to think of some parallel approach at the Federal level.

Finally, we might move toward more direct assistance, as Dr. Berke indicated. This could take the form of general aid, but not necessarily feel. We might want to use an existing mechanism, such as Title I, which the NIE report has indicated is very well targeted on the basis of need. Increasing Title I aid could offer a way of encouraging States to equalize their programs.

There really is a range of options. As I indicated, it is not necessary for us to pay for the major cost of these reforms. The costs of moderate equalization are somewhere between \$2-1/2-to-4 billion in 1975, and Federal incentives of perhaps 20 or 25 percent should suffice to encourage States to attack this problem. This would be in the neighborhood of a billion dollars, a significant sum of money, which we would have to weigh against other important needs. If additional appropriations were forthcoming, an equalization initiative would be deserving of serious consideration.

Mr. JENNINGS. Dr. Berke?

Dr. BERKE. I think Dr. Ginsburg's statement is one that I agree with, and we will be examining a number of these options over the next months, and we will share our thinking with you.

Mr. JENNINGS. I want to make sure you understand the question is not in terms of what is the Administration recommending at this point, but rather in terms of if the Congress is going to take some action, as experts sitting at the table, what is our range of options you would recommend apart from whether the Administration endorses them or apart from whether you believe some are less good than others. I am asking for expert opinion on the range of options.

Dr. BERKE. I think my response in both respects would be fairly similar. The Administration has no definitive position at this point on where it is going to go in this area. I think any set of reasonable approaches ought to include a mixture of the activities that we mentioned, ranging from technical assistance, through the review of existing Federal programs, and, eventually, if we move to a higher proportion of Federal educational funding, to the kinds of incentive programs that this committee is considering today.

At this point, I don't feel comfortable making specific statements because we haven't looked at the question in detail.

Mr. JENNINGS. Dr. Quindry?

Dr. QUINDRY. Of course, my major interest is in the taxation or the resource side of the problem, and the point that I want to make is that we need to provide better data on which to base the grant programs. That is the first thing we should do.

We have these efforts and ability data I mentioned mostly on the State level but not much within the States, but I don't think they are adequate, and I think we need to get busy and get better data so we know what we are talking about when we talk about equalizing.

As far as the Federal encouragements go, I think the first thing they need to look at is coordination of State and Federal grants to make sure they are coordinated in such a way they don't overqualify, for example, or they do a proper job of equalizing.

I think the way to hold down the cost of the Federal programs and do an adequate job is simply to try to encourage the States to have some State local tax reform and reform their own grant programs. As we know, a good many of the States, in fact most of the States, I guess, have a pretty regressive tax system, and to me, this is a point of inequality. I don't know exactly how unregressive they should be, but some are too regressive.

So we need to review the full effect of the Federal-State local taxes in each State, because the Federal taxes have different effects in different States, depending on the level and distribution of the personal income. So we need to look at both the level and the burden distribution of the taxes. They are both significant in making these grants, and I think if we could get the States to have good tax systems—and good is subject to different definitions, I guess—but if we had adequate tax systems in the State and local governments, adequate grant programs from the State to the local school districts, it would cost the Federal Government much less to move into the equalization provision that they think is necessary.

Mr. JENNINGS. Thank you.

Mr. Jordan?

Mr. JORDAN. I addressed the issue in my formal paper. At this moment, after hearing the discussion, I would try to point out one of the problems. Dr. Ginsburg talked about the special education legislation, Public Law 94-142, and the fact that some of the States currently are now integrating that program into their equalization program. As the Public Law 94-142 legislation evolves when full service levels are reached; the way that I read the statute, at that time the issue of integration of the funds or the supplanting provision, you could integrate the funds theoretically into the State aid program.

The difference, though, when one looks at Title I is that very few of the States, in essence, have a State funded program for compensatory education, and so the problem is not as severe, even though I understand that Commissioner Riles may have recently addressed that issue in testimony. The problem is not severe in all States, but in some States it is very severe. The point is the different state of evolution of the States. As they try to identify what they perceive to be educational needs, the concept of compensatory education has not moved as rapidly as an identified need as, say, special education legislation has at the State level.

So the Federal activities, as I stated earlier, need to be looked at very carefully so that they integrate and support rather than conflict with the State efforts.

Mr. JENNINGS. Mr. Cross?

Mr. CROSS. Thank you.

From Dr. Quindry's statement and what we know about the fiscal health of the Federal Government, with budget deficits ranging from \$45 billion to \$60-billion-or-so a year, who is in a better position to be able to pay for equalization, the States or the Federal Government?

Dr. QUINDRY. I think most emphasis should be placed on the States. I think the States should equalize within their States, and then if the Federal government does anything, they should encourage that, but also their major emphasis should be on equalizing interstate.

Mr. CROSS. Let me pursue that a little. Some of us were on a trip to Alaska last month looking at Indian education. We discovered that the State of Alaska pays teachers a beginning salary of \$18,000 to \$19,000 a year. I suspect that is double what teachers are paid in a number of Southern States.

Therefore, there is a legitimate reason to have a disparity in cost between the States, that affects fuel and construction cost as well. The cost of importing lumber to build a school in some of those places in Alaska is atrocious. A school for 30 or 40 children may cost over \$2 million to build.

To what extent and how do you design an interstate equalization formula that takes into account those legitimate differences in expenses, and how do you measure that?

Dr. QUINDRY. Of course, that is another weakness of our interstate data we have. We do not have a good index of the differences in cost of living from State to State. If we had that, then, of course, these data could be adjusted by the differences in cost of living,

which would sort of work, then, on the cost of living, which would be level in each State. But we don't have that data.

Mr. CROSS. Cost-of-living data doesn't even exist for most large cities, just a handful.

Dr. QUINDRY. Yes, and that is one of the problems, and until we get that, we can't do a good job of adjusting. We could do it arbitrarily and probably do it better than nothing, but being accurate we can't.

Mr. CROSS. Let's talk about within the States a little. Keeping to Alaska as an example, the cost of food, the cost of services and fuel, etc. is much less in Anchorage than it is in Barrow. Therefore, if you adopt an expenditure disparity and use only that as the one index of whether or not a good education is being provided, is that really fair?

Dr. QUINDRY. Of course, on the cost side, the same as the cost-of-living side, that is the cost of providing the education through furnishing the buildings and supplies, and the school is the same problem. We don't have data on cost in various areas.

Mr. CROSS. Let me address this to Dr. Ginsburg. Your study only talks about fiscal disparity. I am bothered by two things about the study. One is the questions I raised with Dr. Quindry was about legitimate within-State disparities. Secondly, is the fact you talk only about disparity and not about fiscal neutrality.

Let's take Minnesota, for example, a State, which your chart shows has actually had increases in expenditure disparities since 1970, even though Minnesota has gone through a major equalization reform which has increased State contributions to something like 70 to 75 percent.

Did you look at Minnesota in terms of fiscal neutrality?

Dr. GINSBURG. Let me speak to the last question first.

We did a study, which is available, which outlines in more detail an analysis of our results. Let me note some of the relevant findings from that study.

We have looked at the distribution of per-pupil expenditures within States according to the ability of the district to finance education as measured by property wealth per pupil.

What we find is that there has been over all, some improvement with respect to reducing inequalities in relation to fiscal capacity. In the case of Minnesota, that was not the case. In fact, between 1970 and 1975, low wealth districts showed a slight decrease in terms of their per-pupil expenditures in relation to the State average.

But there was some improvement in about half the States in the country. In the other half, there was no appreciable improvement or there was some decline. We will be happy to make the full study available to you.

Mr. CROSS. Do you have something that would be a summary of that data, much as Table 1 in your statement, that we could have for the hearing record?

Dr. GINSBURG. Sure. Table II, p. 13 of "School Finance Reform in the Seventies: Achievements and Failures," Interim Report, Sept. 28, 1977. [See Appendix 1.]

Let me also note in terms of the cost question, which is a very difficult one to deal with, a study which is underway for the National Institute for Education by Killalea Associates, who also participated in our study. This study will be providing estimates of education cost differentials, both across States and within States for, I believe, 1970. We will be happy, for the record, to submit information on that study as well.

Mr. CROSS. When will that be completed?

Dr. GINSBURG. I am not certain.

Mr. CROSS. Mr. Doyle of NIE is, sitting in the audience, would you care to respond?

Mr. DENIS DOYLE (National Institute of Education). It is a 2-phase study, and the first phase will be completed this month, and the second phase will begin on completion of the first. We will have a report for you November 1.

Mr. CROSS. Of this year?

Mr. DOYLE. Yes.

Mr. CROSS. If we might, could we have a description of that study for insertion in the hearing record?

We have talked about cost estimates, and a couple of statements talk about cost estimates of H.R. 1138, and Mr. Jordan says \$30 billion, and Mr. Berke hints at 27, although you don't say it is the cost estimate for this bill.

I wonder if we could have, Mr. Jordan—I assume you have costed this out for CRS.

Mr. JORDAN. Two or three responses: One is that CBO is the agency which does the formal cost estimate. This was a crude estimate, as I stated in the paper. Assuming public and nonpublic elementary and secondary school children, and assuming a level of funding, and sitting down in a casual manner as one can do with a pad rather than a computer, arriving at rough cost estimates.

Mr. CROSS. Could we have the casual estimate for the hearing record?

Mr. JORDAN. The casual estimate is contained in the formal paper.

Mr. CROSS. But not year-by-year?

Mr. JORDAN. Not year-by-year; no. Yes, we can include that; right.

[The information requested follows:]



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October 14, 1977

TO: Subcommittee on Elementary, Secondary and Vocational Education
FROM: Education and Public Welfare Division
SUBJECT: Supplementary Material for the Hearing Record of
September 29, 1977

Fiscal Requirements of H.R. 1138

This memo is presented in response to a request made during the Hearings of the House Subcommittee on Elementary, Secondary and Vocational Education on September 29, 1977.

As stated in the oral testimony, responsibility for the preparation of fiscal estimates resides with the Congressional Budget Office rather than the Congressional Research Service.

With reference to Title I of the proposed legislation, the base amount of \$100 per pupil is to be reduced by the amount that an LEA's non-Federal per pupil expenditure exceeds 115 percent of the State average per pupil expenditure. Single source data required for the preparation of this projection are not currently available; States do not even have the information in immediately available form.

As stated in the oral testimony, fiscal projections for Title II of the proposed legislation can only be developed on the basis of two assumptions and must be accompanied by a very restrictive caveat. The first assumption is that the technical wording of the finally enacted statute

and the regulations would permit States to participate in the program even though their current school financing programs might be very inequitable; their opportunity to participate would be based on the "statement of intent" as outlined in the State plan. The second assumption is that, given the first assumption, all States would seek to participate in the legislation. (The likelihood of this happening is open to question for the State school finance program would have to meet Federal criteria.) The caveat is that virtually no State with the possible exception of Hawaii, could presently qualify under the 10 percent disparity in expenditure restriction in the proposed statute, and States would in all likelihood be cautious in committing themselves to a level of fiscal equalization beyond that found in such States as Florida and New Mexico.

Recognizing the previously stated limitations and the minimal possibility that States would participate in Title II of the proposed legislation, fiscal projections for Title II must be viewed as maximum potential entitlement rather than as cost estimates. The maximum potential entitlement for the first year would be approximately \$10 billion, for the second year \$15 billion, for the third year \$20 billion, for the fourth year \$25 billion, and for each succeeding year \$30 billion.

K. Forbis Jordan
426-5860

Mr. CROSS. Fine; thank you.
I think another issue—

Mr. JENNINGS. That cost estimate has to be understood in the context of the bill, I believe. Yesterday, the testimony was that no State would qualify under a 10-percent disparity provision, which is a requirement for receiving the grants under the second title bill, grants going from \$600 to \$200. Therefore, no State presently qualifies, and you cannot consider that to be the present cost, so it would just be the first title of the bill which would be a natural cost factor. The second title of the bill is dependent upon which States meet the requirements of the Act. So you can't just multiply the number of dollars times the number of children. It has to be the number of children in the States which meet the requirement of the Act.

Mr. JORDAN. My understanding of the second title is that the State would present a plan as to how it would move toward

equalization at the 10 percent disparity level—and the caveat that I have in the paper would also prevail on any other information which might be provided, and that is—assuming that all States made a public policy choice to select the option of Title II, and then assuming that they had the capacity, the good will, and the fiscal resources, and assuming the States were able to retain the power bloc to move toward the plan which they accepted.

One can come the other way and point out the disparity which currently exists, as I did, by selecting the two States that probably have the lowest level of disparity at the moment, Florida and New Mexico. If one recognizes the problems which exist in those States, one can also logically come to the position that the 10 percent disparity may be an unattainable goal.

Mr. CROSS. It would be a reasonable bill under that circumstance.

Mr. Jordan, while I have you, let me pursue something you said earlier. You said the handicapped education does allow commingling and supplanting; is that correct?

Mr. JORDAN. It is my understanding from reading the legislation, after the full service level is reached, then an integration would be permissible, provided the plan that is submitted by the State to the commissioner would meet with approval. The language is somewhat fluid as to exact criteria that would be used to make that determination.

Mr. CROSS. First, it is going to take several billion dollars to implement that. I think some of the cost estimates are in the vicinity of \$6 billion to \$7 billion when the bill was being considered. What is going to happen in the meantime? What is the effect of the increased funding going to do to equalization until it reaches full funding, particularly in places like Florida, where there is a weighting factor in the State aid formula, and I suspect Florida is not alone in that regard.

Mr. JORDAN. Until they reach the level of full service, why the program, in essence, has some disequalizing factors built into it. It still remains to be seen, though, the manner in which the State plan will address the issue of allocation of resources within the State because, in the first two years, a portion of the funds is all that has to flow through, and the report isn't in yet, in essence, as to what the States will do, nor what they will be permitted to do, in the implementation of the legislation.

Mr. CROSS. Turning to another subject, impact aid, we have talked about the 5(d)(2) provision today but not in detail. From your experience, Mr. Jordan, as an expert witness, what do you think of the regulations that have been published as final and as proposed in terms of how strict or how loose they might be with regard to States being able to meet those disparity and neutrality standards?

Mr. JORDAN. My observation would somewhat concur with what Dr. Ginsburg mentioned earlier, in that there will be a relatively small number of States which will be able to meet either of the standards, either the disparity standard or the wealth neutrality standard.

I have done some very limited work on this in connection with some other activities in trying to identify what the problems might be with even making the computation, and the real issue is a

different kind of issue. The real issue is the public policy choice issue, from my perspective, and that is what is the desire of the Congress in those regulations as to whether the desire is to maximize opportunities for the States to use the funds or whether the desire is to minimize opportunities.

Mr. CROSS. I think we should be clear on the record that the Congress did not write the regulations. The executive branch did, so the intent of Congress, when that statute was passed, may bear little relationship to the regulations.

One final point, which concerns Congressman Quie and many others is the extent to which equalization may be driving school districts toward mediocrity by the capping off of the top spending district either in terms of recapture provisions or in terms of disincentives to pass overrides.

I wonder if either OE or NIE has considered looking into this area in terms of either designing a contract or designing a study which might get into the question of looking at some of these districts which Mr. Quie mentioned, like Rochester, Minnesota, and others, and the degree to which children in these districts have had services reduced as a result of these reforms?

Dr. Berke, as the highest ranking—

Dr. BERKE. I am not certain of the National Institute's research plans. On the other hand, I do believe the Ford Foundation is looking at the question of funding a study of the high wealth suburban districts.

I am not sure that we have studies underway on that.

Mr. CROSS. Fine; thank you very much.

Mr. LEFANTE (presiding). Does anyone else have any further questions? If there are no further questions, on behalf of the committee we want to thank you gentlemen and assure you that your testimony will be most helpful after it is recorded and we are able to go over it thoroughly and digest it. If there are no further questions, the committee will adjourn until Tuesday morning, at 9:30 a.m.

[Whereupon, at 10:03 a.m., the subcommittee adjourned, to reconvene at 9:30 a.m. o'clock, Tuesday, October 4, 1977.]

[Appendix materials follow:]

APPENDICES

APPENDIX 1

SCHOOL FINANCE REFORM IN THE SEVENTIES:
ACHIEVEMENTS AND FAILURES

Lawrence L. Brown, III
Alan L. Ginsburg
Neil J. Killalea
Esther Tron

Interim Report
September 28, 1977
(271)

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I. INTRODUCTIONThe Problem in Brief

Although almost every State constitution makes education a State responsibility, in practice much of the responsibility is delegated to local school districts. By virtue of proximity to the point at which educational services are delivered, the school system is presumably in the best position to make decisions on the form of education appropriate to the needs and preferences of its community. But its decisions are also subject to the constraints imposed by the level of resources that the community can make available for education. That level is determined, for the most part, by taxation on property wealth; and property wealth is distributed nonuniformly throughout the districts in each State. A number of State courts have ruled that substantial disparities in educational resources, when traceable to varying levels of local ability to pay, violate their constitutions by failing to provide equality of educational opportunity to all children.

The Congress has already recognized the national importance of this issue in several ways. The long-standing Federal impact aid program reimburses localities for the costs of educating children of Federally connected workers. Within that program, regulations now permit States that have adequate school finance equalization programs to count as State aid a school district's impact aid grant. More recently, the Congress has authorized grants to assist States in planning for equalization. It is not clear what further role the Federal government ought to play in school finance within the States. From at least one perspective, however, there is a potential motivation stemming from the Federal drive to eliminate

discrimination in schooling and to reduce the effects of educational disadvantage; these programs would be of little avail if the educational system suffers a broader and more pervasive form of shortfall -- in resources available to children in less wealthy districts. Moreover, the drive to eliminate discrimination in the core program is consistent with the current Federal focus on equalization of opportunity.

This study examines changes that have taken place in recent years in the distribution of resources within the States, to serve as a base for evaluating the possible need for further Federal involvement in school finance.^{1*}

Structure of the Study

States have reacted in various ways to the concern for equalization. Some have modified the basic form of their school finance system, others have increased the percentage of total funds that is collected by the State rather than by the localities, and others are studying the problem. Out of this mix of activities, it is difficult to discern the effectiveness of school finance reform. This study examines the effectiveness of school finance reform solely in terms of results -- the resource levels made available in the school districts of a State and the relation between resources and local wealth. In contrast to other analyses, the present study examines all the states.²

A snapshot of the distribution of resources at a single time could, however, be misleading. At least as important is the extent to which the situation has changed over time. If the situation has improved, it may

* Notes appear at the end of the paper.

not be unreasonable to assume that it will continue to do so. If there has been little change and if there are severe disparities at present, there may be need for stronger remedial action.

This study therefore describes not only the recent situation but also the changes that have taken place over the past. Ideally, for such a study there would be data available for each of a number of years including the most recent. The real world never makes such data available; but for the purposes of this analysis there are two comparable data bases -- one for 1970 and the other for 1975 -- that contain generally adequate data for all the states.³ The movement to reform State school finance programs did not get under way until after 1970, and its initial impacts could be expected to have registered by 1975.

The study begins by examining, in Section II, the changes in disparity in the States, the beneficiaries and losers from the changes, and the costs of further equalization. In Section III we relate the changes in resource allocation to activities that various States have taken in a presumed effort to reform their school financing arrangements. A summary of the findings and conclusions is presented in Section IV.

II. DISPARITY CHANGES, 1970 to 1975

This section presents the changes that have taken place between 1970 and 1975 in the distribution of educational resources. The discussion is organized around three basic questions:

- . What changes have taken place between 1970 and 1975 in overall disparities in the States?
- . What kinds of districts have gained and lost from those changes?
- . What are the costs of further equalization?

To be able to address these questions, two methodological matters must be decided: (1) how resources are to be defined and (2) how disparities are to be measured. The first part of this section addresses these matters.

A. Methodology

Definition of Resources

Resources are defined here as the portion of current operating expenditures (COE) per pupil that is supported by non-Federal sources. COE is chosen for several reasons: it is a comprehensive measure of educational resources; it excludes capital outlays, which could otherwise make resources appear to be very high in the year of outlay; and it is readily available in national data bases. COE as reported in the data files are based on revenues collected from several sources, including the Federal government. Since the purpose of this study is to examine the distribution of local and State funds, it is necessary to adjust COE to remove Federal revenue.⁴ The exception is Federal impact aid, which is treated here as local revenue.⁵

Although many analysts have employed expenditures as though they were equivalent with resources, they are not the same. The difference

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arises principally from the fact that a dollar buys different levels of real educational resources in different parts of a State. Techniques are now under study for identifying and adjusting for the varying costs of education throughout a State, but it has not been possible to apply them in the present study.⁶ This shortcoming affects the analyses discussed below differentially, as will be pointed out in the review of the results.

All district expenditure figures are stated on a per-pupil basis. The States count pupils in various ways. Some use average daily attendance (ADA), some use average daily membership (ADM), and some use a combination of the two.⁷ Rather than impose one or the other of these measures on all States, this study employs whatever measure the State has used.

Measures of Disparity

Several methods are used to display the effect of resource allocations in the States.

First, it is helpful to have a simple measure for assessing overall disparity in a State — that is, how much disparity there is, without reference to the incidence or causes of the disparity. There is no wholly satisfactory measure of disparity, and the perceived inequality can depend, sometimes quite strongly, on the measure employed. This study employs two measures:

- 95:5 Percentile. The ratio of expenditures at the 95th percentile of students to expenditures at the 5th percentile. The measure is employed here because it is a measure of extreme expenditure disparities and because it is currently incorporated in Federal regulation. The exclusion of the highest and the lowest five percent is intended to account for circumstances that might justify some extreme unevenness in the distribution of resources.⁸ A value of, say, 2.5 means that students at the 95th percentile receive two and one-half times the expenditures per pupil of those at the 5th percentile.

- Coefficient of Variation. This measure, which is the standard deviation expressed as a percentage of the mean, provides a statistically meaningful characterization of the entire distribution of expenditures in a State. Although it is more complex than the 95:5 measure, it has a relatively simple interpretation: a value of, say, 12.4 means that approximately one-sixth of the students in the State receive at least 12.4 percent more expenditures than the State average and one-sixth receive at least 12.4 percent less than the average.

To measure change for either of these measures, the value in 1975 is simply divided by the value in 1970. Thus, a value of 85 would indicate that the 1975 disparity is 85 percent of the 1970 disparity.

To address the second question — the gainers and losers from changes between the two years — school districts are grouped according to each of two characteristics. The principal issue in school finance is the extent to which expenditures depend on a locality's wealth or ability to pay. School districts are therefore grouped into those with the least ability to pay, those with the most, and those in the middle.⁹ Their expenditures are then compared by reference to the average expenditures in the State. School districts are also grouped according to whether they are center cities in an SMSA, other districts in an SMSA, or not in an SMSA.¹⁰ Again, the expenditures for each such grouping are then compared to the State average.

One final note on the method by which school districts are compared. The resources in each district are compared to the (pupil-weighted) average in a State of all districts. In some States, every district serves children in both elementary and secondary grades. In others, some districts serve only elementary or only secondary grades. Between elementary districts and secondary districts there are often striking differences in the expenditure levels per pupil, differences that are

usually justified in terms of the higher levels of expenditure incurred in advanced courses in high school. In this study no account is taken (or "credit" given) for such differences; the disparities as stated here may therefore overestimate disparities in some States (while possibly underestimating disparities in others).¹¹

- - - - -

Using these measures and presentation methods, changes in resource distribution between 1970 and 1975 are presented in three sections:

- . The first analysis is of variations in resources within each State, without reference to characteristics of the districts
- . The second is of the characteristics of the districts that have gained or lost from 1970 to 1975
- . The third section presents estimates of the cost of further equalization.

B. Changes in Overall Disparity

Table I presents, for each State the disparity in 1975 and the percentage between 1970 and 1975. Column 1 lists the disparity ratio in 1975 as calculated by the 95:5 measure, and column 2 shows the ratio of the 1975 value to the 1970 value; a ratio greater than 1.0 shows that the disparity in 1975 was greater than in 1970. Columns 3 and 4 present similar calculations for the coefficient of variation. Column 5 summarizes the results of columns 2 and 4, indicating whether or not the change from 1970 to 1975 appears to exhibit an equalizing trend. The use of question marks is intended to reflect uncertainties in a result.¹²

Several characteristics of the behavior of the two measures should first be noted. The disparities according to the two measures (columns 1 and 3) are broadly in agreement, although not in every instance. When

Table I. Within-State Disparities, 1975, and
Disparity Changes, 1970 to 1975,
(Ranking by 95:5 Measure)

	95:5 Percentile		Coefficient of Variation		Equalizing 1970 to 1975 ?
	1975 (1)	1975/1970 (2)	1975 (3)	1975/1970 (4)	
Georgia	2.41	130	0.28	138	No
Connecticut	2.29	103	0.21	91	?
Massachusetts	2.19	112	0.23	122	No
California	2.02	109	0.21	99	No
Vermont	1.99	59	0.21	57	Yes
Montana	1.97	103	0.21	111	No
New Jersey	1.95	101	0.20	104	No
Illinois	1.90	93	0.22	95	Yes
Tennessee	1.90	99	0.21	91	Yes?
Kentucky	1.86	109	0.20	119	No
New York	1.85	113	0.23	140	No
Washington	1.83	110	0.18	108	No
Wyoming	1.82	116	0.21	125	No
Mississippi	1.80	105	0.17	103	No
Texas	1.79	94	0.20	87	Yes
Arkansas	1.78	92	0.18	99	Yes?
New Hampshire	1.78	94	0.16	95	Yes
Ohio	1.78	100	0.20	105	Yes
Virginia	1.78	108	0.27	123	No
Colorado	1.77	101	0.18	110	No
Maryland	1.77	111	0.20	139	No
Missouri	1.73	94	0.24	96	Yes
Nebraska	1.73	106	0.19	127	No
Arizona	1.71	91	0.17	81	Yes
Michigan	1.71	95	0.17	88	Yes
Delaware	1.70	82	0.18	112	?
Maine	1.67	107	0.16	101	No
Kansas	1.63	89	0.14	63	Yes
S. Carolina	1.63	99	0.14	104	No
Minnesota	1.62	111	0.13	116	No
Wisconsin	1.59	100	0.16	96	Yes?
Rhode Island	1.58	90	0.13	70	Yes
Pennsylvania	1.57	100	0.17	104	No
North Dakota	1.53	79	0.14	82	Yes
Idaho	1.51	102	0.16	133	No
N. Carolina	1.51	101	0.12	103	No
Oklahoma	1.51	91	0.20	102	?
Indiana	1.50	94	0.13	99	Yes?
Oregon	1.50	100	0.14	118	No
South Dakota	1.50	88	0.13	74	Yes
West Virginia	1.49	100	0.13	91	Yes?
Alabama	1.43	100	0.12	103	No
New Mexico	1.41	94	0.13	91	Yes
Iowa	1.34	74	0.09	51	Yes
Louisiana	1.32	99	0.10	104	No
Florida	1.30	85	0.09	67	Yes
Alaska	1.29	99	0.16	211	No
Utah	1.27	100	0.09	101	No
Nevada	1.18	98	0.07	96	Yes?
Hawaii	1.00	—	0.00	—	—

either measure shows a clear indication of disparity, the other also does. The percentages of change according to the two measures (columns 2 and 4) are also in close agreement, except for Alaska (which is an outlier in both the geographic and the statistical sense) and Delaware. When one measure is close to 100 percent, however, the other sometimes indicates a change in the opposite direction. Finally, the percent change in either direction usually appears greater under the coefficient of variation: If the 95:5 measure shows 102, the coefficient of variation may show 133 (as it does for Idaho), while if the 95:5 measure shows 89 the coefficient of variation may show 63 (as it does for Kansas).

The States with the greatest disparities (columns 1 and 3) show no regional patterns, including States from every part of the country. They do include, however, several of the nation's largest States. The 12 States with greatest disparities enroll approximately 38 percent of the nation's public school students. At the opposite end of the ranking, States with the least disparity tend to be those with the smallest populations, the only exception being Florida. It is noteworthy that the six States with the least disparity also operate relatively few school systems.¹³

Columns 2 and 4 show the change from 1970 to 1975, as a percent. Only about one-third of the States appear to have made any progress in reducing disparities in the intervening years, even including some that improved by a percentage point or less each year in the five-year period. Among the 12 States with the greatest disparities, only Vermont exhibits a clear change toward equalization - but it must be pointed out that Vermont's

starting point in 1970 was extremely unequalized.*

Thus far, the study has described the disparities in the States without addressing the question, How much disparity is too much? In considering this question it is helpful to characterize two views that represent the ends of a spectrum.

Some argue that local control of the schools is essential to effective delivery of educational services and that localities must be free to choose the level and types of resources appropriate to the community's needs and desires. They would argue, on principle, that any constraint on a locality's freedom to use its own wealth to support education is counter to the spirit of the free enterprise system -- and, on practical grounds, that imposition of such a constraint would lead to a "wealth flight" from public schools like the "white flight" that is sometimes claimed to follow school desegregation.

In opposition, others would hold that -- aside from justifiable differences arising from the costs of education or differing pupil needs -- there is no reason to permit any variation. They would point to decisions by State courts in school finance cases for support of the view that a State is, in effect, a large school district that establishes local school districts for purposes of educational effectiveness and administrative convenience but not in order to permit school resources to vary from place to place.

These views do not exhaust the issues that arise in considering the

* In Vermont in 1970, the 95:5 measure showed a disparity ratio of 3.36, and the coefficient of variation was 0.38, higher figures than for any other State in that year.

extent of permissible variations within a State. It has been argued, for instance, that the costs of equalizing constitute a burden that the already hard-pressed educational system is not equipped to bear; the last part of this section derives estimates of these costs for varying levels of equalization. Moreover, it has been pointed out that there is little evidence that the level of school resources influences the achievement of students.

It is not the purpose of this study to evaluate these views. It suffices that disparities have been and are a concern not only of the State courts but also of the Federal government. How much disparity, then, is too much? One source of guidance is a criterion set by the Office of Education in determining how a State can qualify to be able to count Federal impact aid as State aid.¹⁴ The State must be operating an effective school finance system, where effectiveness is determined by whether or not its 95:5 measure shows a disparity no greater than 25 percent. According to the results in Table I, only two States, Hawaii and Nevada, could meet this requirement in 1975. The Office of Education test does not count toward disparity the spending made for special needs, while the present study has not separately identified such funds. Moreover, these results are based on approximate measures and on a sample of districts. Nonetheless, it is difficult to believe that more precise measurements would result in more than a handful of additional States qualifying in 1975.

Disparities throughout the distribution of a State's districts are not the only concern in school finance. The courts and legislatures have also been concerned about the types of districts that benefit and

lose from present distributions. The next part of this section reviews the study's findings about two issues: The relation between expenditures and wealth -- the principal concern of school finance cases -- and the relative expenditures and wealth available to city districts.

C. The Incidence of Disparities: Gainers and Losers

The analysis in the preceding section portrays the extent to which overall disparities are being reduced. This is of course not the only criterion on which to judge the equity of a particular school finance arrangement. The principal fault found by state courts is that the level of per-pupil resources depends on the ability of localities to raise revenues to support education; we therefore want to examine the incidence of disparities in places that vary in local wealth per pupil. A second issue arises in connection with the cities. Many have argued that redistribution of educational resources to eliminate the effects of property wealth would harm the cities, because these areas generally have high property wealth. The second analysis therefore examines the resources available in cities relative to other places. Both analyses examine not only the status in 1975 but also the change from 1970.

Disparities and the Ability to Pay

For this analysis we divide each state's student population into three groups: the 25 percent of the students attending school in districts with the lowest property valuation per pupil, the 25 percent in districts with the highest property valuation, and the middle 50 percent. For each of these groups we have calculated the level of resources relative to the state average.

Table II shows the relation between expenditures and property wealth for each of the three groups. Entries in the table can be understood by

Table II. Resources and Change in Resources, 1970-1975
for Districts of Varying Per-Pupil Property Valuation.
(Expenditures Relative to State Average)

	Low 25% EPV/PUP		Mid 40% EPV/PUP		High 25% EPV/PUP	
	1975		1975		1975	
	EXP/PUP	1975/1970	EXP/PUP	1975/1970	EXP/PUP	1975/1970
Alabama	0.95	*	1.01	*	1.02	*
Alaska	*		*		*	
Arizona	0.95	118	0.95	94	1.15	99
Arkansas	0.90	107	0.97	98	1.17	99
California	0.88	101	0.98	102	1.15	95
Colorado	0.86	102	0.94	96	1.26	104
Connecticut	0.90	110	1.04	104	1.02	86
Delaware	0.89	103	1.03	104	1.05	91
Florida	0.92	106	1.01	101	1.07	94
Georgia	0.83	96	0.95	102	1.27	100
Hawaii	*		*		*	
Idaho	0.94	102	0.89	98	1.07	102
Illinois	0.87	105	1.04	102	1.06	92
Indiana	0.90	100	1.00	97	1.10	105
Iowa	0.95	94	1.00	102	1.04	102
Kansas	0.91	104	0.97	103	1.16	93
Kentucky	0.82	99	0.98	98	1.22	105
Louisiana	0.96	*	1.01	*	1.03	*
Maine	0.93	103	1.00	100	1.07	98
Maryland	0.82	88	0.97	102	1.23	106
Massachusetts	0.88	101	1.03	103	1.05	93
Michigan	0.90	105	0.99	102	1.13	94
Minnesota	0.90	96	0.99	98	1.13	109
Mississippi	0.93	107	0.95	100	1.17	96
Missouri	0.86	103	1.00	103	1.13	93
Montana	0.95	114	1.05	111	0.95	75
Nebraska	0.90	98	0.97	98	1.15	105
Nevada	0.99	95	0.98	103	1.04	100
N. Hampshire	0.91	93	1.02	104	1.04	98
New Jersey	0.92	106	0.99	99	1.10	97
New Mexico	1.01	114	0.97	98	1.04	91
New York	0.78	88	0.97		1.24	112
N. Carolina	0.93	98	0.97	94	1.12	114
N. Dakota	0.97	117	0.98	94	1.06	98
Ohio	0.83	102	1.00		1.16	94
Oklahoma	0.91	110	0.97	101	1.15	93
Oregon	0.91	97	1.00	97	1.08	109
Pennsylvania	0.87	98	1.00	103	1.14	98
Rhode Island	0.92	104	0.99	102	1.11	94
S. Carolina	0.90	104	1.02	102	1.05	93
S. Dakota	0.92	103	0.99	95	1.09	108
Tennessee	0.85	102	0.97	88	1.20	124
Texas	0.85	103	1.00	102	1.15	96
Utah	0.95	102	1.00	99	1.05	100
Vermont	0.92	105	1.07	116	0.93	73
Virginia	0.87	102	0.91	96	1.31	104
Washington	0.92	105	0.97	96	1.13	103
W. Virginia	0.91	97	0.97	103	1.14	97
Wisconsin	0.93	98	1.01	105	1.04	93
Wyoming	0.95	111	0.94	98	* 17	26

* Data Not Available.

reference to Arizona: the 25 percent of the children in districts having the lowest property valuation per pupil (EPV/PUP) received 95 percent of the state's average expenditure in 1975; this represents 118 percent of the level of resources received by the lowest quartile in 1970. Data for this analysis are not available for Alaska and Hawaii; data for 1970 are not available for Alabama and Louisiana. In addition, results for a few of the less populous States are influenced by the sample. It is doubtful, for instance, that the children in Vermont's wealthiest districts received, in 1975, only 93 percent of that State's average expenditure; this problem can be discerned in the results for Montana and Tennessee as well. For most States, however, the results are believed to be a valid approximation to the actual situation.

The table confirms the well-known association between resources and wealth. Children in low-wealth districts receive less than the state average in every state except New Mexico, the middle 50 percent of the children receive about the average, and the children in high-wealth districts receive more — sometimes much more, as in Colorado, Georgia, Kentucky, Maryland, New York, Tennessee, and Virginia, all of which make at least 20 percent more than the State average available to children in high-wealth districts.

The second column under each EPV grouping reflects the change in expenditures, where a figure of more than 100 percent indicates that the group received higher levels in 1975 than in 1970. A comparison of these columns across the three groupings reflects a positive change in 14 States in reducing the link between expenditures and property valuation; that is, in 14 States the low-wealth children gained at least a percentage point per year between 1970 and 1975. This is seen particularly in New Mexico,

where the low-wealth children received 114 percent of the expenditures in 1975 than that quartile received in 1970, while its high-wealth children received 81 percent of the 1970 levels. Somewhat the same pattern can be seen in Connecticut, Delaware, Florida, Illinois, Kansas, Michigan, Mississippi, New Jersey, Oklahoma, Rhode Island, South Carolina and Wyoming. In several States, the low-wealth children gained but at the expense of the middle 50 percent of the children rather than at the expense of the high-wealth children; this pattern is seen to some extent in South Dakota, Arizona, North Dakota, Washington, and Virginia.

Disparities and Urban Status

Administrators in center city school districts have expressed a concern that school finance reform, if aimed at removing the link between expenditures and wealth, may harm the cities, which generally have more than average property wealth per pupil. They argue that not as much of the wealth can actually be applied to education as in other places because cities bear disproportionately higher burdens for other municipal functions. They also argue that a comparison based on expenditures is open to question, because it does not take into account the higher costs of educational resources in the cities. There are therefore two questions of interest: how do expenditures in center city districts compare with expenditures in other districts, and what is the apparent wealth in these places?

Table III examines expenditures in center city districts in Standard Statistical Metropolitan Areas (SMSAs), other districts in SMSAs and districts not in SMSAs. For each district grouping there are two columns: the 1975 expenditures relative to the State average and the change in expenditures over the time under study (the 1975 value divided by the 1970 value).

Table III. Expenditures, 1975, and Expenditure Changes,
1970 to 1975, by Urban Types
(Expenditures Relative to State Average)

	Center Cities in SMSAs		Other in SMSA		Not in SMSA	
	EXP/POP 1975	1975/1970	EXP/POP 1975	1975/1970	EXP/POP 1975	1975/1970
	(2)	(3)	(4)	(5)	(6)	(7)
Alabama	1.02	98	1.03	104	0.98	99
Alaska	—	*	—	*	1.00	100
Arizona	1.01	87	0.99	101	0.98	111
Arkansas	1.17	95	0.94	102	0.98	101
California	1.04	99	0.98	101	0.93	100
Colorado	1.16	106	0.96	102	0.91	93
Connecticut	1.03	101	1.01	99	0.94	102
Delaware	1.27	102	1.01	98	0.90	104
Florida	0.97	104	1.04	101	0.94	100
Georgia	1.24	101	1.06	102	0.84	95
Hawaii	1.00	100	—	*	—	*
Idaho	1.21	109	0.83	101	0.98	99
Illinois	1.15	103	0.98	99	0.85	100
Indiana	1.07	98	0.95	99	0.97	102
Iowa	1.01	87	0.97	103	1.00	104
Kansas	0.98	107	0.94	96	1.03	98
Kentucky	1.14	91	1.20	108	0.91	100
Louisiana	1.01	96	1.01	103	0.99	102
Maine	0.99	98	1.11	97	0.99	101
Maryland	0.83	87	1.08	102	0.90	104
Massachusetts	1.14	114	0.97	96	0.90	93
Michigan	1.04	96	1.02	99	0.93	100
Minnesota	1.17	111	0.97	95	0.97	100
Mississippi	1.29	104	0.93	99	0.98	100
Missouri	1.06	111	1.05	96	0.91	102
Montana	1.10	114	0.82	78	0.97	96
Nebraska	1.00	99	0.90	100	1.02	100
Nevada	0.98	93	0.98	103	1.07	99
N. Hampshire	0.95	100	0.90	91	1.02	101
New Jersey	0.94	102	1.01	99	1.01	102
New Mexico	0.98	100	—	*	1.01	100
New York	1.17	113	0.95	95	0.79	89
N. Carolina	1.15	100	1.00	109	0.95	99
N. Dakota	1.22	92	0.99	96	0.98	101
Ohio	1.14	99	1.00	99	0.86	103
Oklahoma	1.09	97	0.94	107	0.97	98
Oregon	1.08	110	0.98	98	0.97	96
Pennsylvania	1.09	94	1.00	102	0.90	101
Rhode Island	1.12	95	0.93	104	1.02	103
S. Carolina	1.28	115	0.98	96	0.99	101
S. Dakota	1.03	96	0.94	84	1.00	101
Tennessee	1.21	98	0.99	86	0.89	108
Texas	0.99	101	0.98	102	1.04	96
Utah	1.07	102	0.95	99	1.08	103
Vermont	—	*	—	*	1.00	100
Virginia	1.10	104	1.11	104	0.85	90
Washington	1.19	101	0.98	97	0.91	105
W. Virginia	1.10	93	1.13	99	0.95	102
Wisconsin	1.09	107	1.02	96	0.93	99
Wyoming	—	*	—	*	1.00	100

*Less than 10 percent of the State's pupils are in districts of this urban type.

Center city districts in most States spend at or above the State average; in half the States, spending in such districts is at least six percent higher than the State average. Only in Maryland is there a center city district well below the average; this is Baltimore (the only center city in the State), which receives 83 percent of the State average. Other districts in SMSAs spend at about the State average, and districts not in SMSAs generally spend less than the average for their States.

It is appropriate to recall here the claim that the apparent advantage of the center cities would diminish if a measure were employed that was sensitive to the cost differences between urban and other places. This claim can reasonably be directed to columns 1, 3, and 5 in the table, which are based on expenditures in given year, unadjusted for cost differences. The estimates of change presented in columns 2, 4, and 6 are much less affected by the lack of a cost adjustment; that is, the change in resources, however resources are measured, should provide meaningful information. Overall, center cities were gainers in half the States and losers in the others. If attention is directed solely to the States in which there are substantial numbers of population in center cities, however, it can be seen that the center-city districts generally kept about even or bettered their status from 1970 to 1975. Of course, it is necessary to view gains and losses in the perspective of where center cities stand in 1975; the center cities in Ohio, for instance, did not improve their status over this five-year period, but their 1975 expenditures were 1.14 of Ohio's average.

The second issue of interest in center-city districts is the extent to which property valuation may present a misleading estimate of a district's ability to support education. Table IV presents, for the three district

Table IV. District Wealth by Urban Type, for Two Measures, 1975

	Center City in SMSA		Other in SMSA		Not in SMSA	
	EPV/POP	EPV/CAF	EPV/POP	EPV/CAF	EPV/POP	EPV/CAF
Alabama	1.25	1.17	1.04	1.07	0.84	0.87
Alaska	n/a	n/a	n/a	n/a	n/a	n/a
Arizona	1.05	0.87	0.88	1.11	1.04	1.24
Arkansas	1.41	1.10	0.82	1.06	0.96	0.96
California	0.89	0.90	1.05	1.05	1.17	1.10
Colorado	1.45	1.05	0.75	0.93	1.00	1.03
Connecticut	1.01	0.81	1.00	1.09	0.99	1.14
Delaware	1.13	0.84	1.15	1.13	0.72	0.83
Florida	0.69	0.67	1.20	1.11	0.89	1.02
Georgia	1.41	1.19	0.95	0.99	0.85	0.90
Hawaii	n/a	n/a	n/a	n/a	n/a	n/a
Idaho	1.05	0.91	0.6	1.17	1.01	1.01
Illinois	0.78	0.78	1.19	1.10	0.89	1.04
Indiana	1.12	0.97	0.91	1.04	0.96	1.00
Iowa	0.88	0.78	0.83	0.96	1.08	1.10
Kansas	0.76	0.65	0.79	0.89	1.15	1.16
Kentucky	1.55	1.33	1.28	1.21	0.84	0.87
Louisiana	1.43	1.27	0.73	0.75	0.79	0.84
Maine	1.24	0.92	1.16	1.17	0.95	0.99
Maryland	0.63	0.54	1.15	1.18	0.84	0.95
Massachusetts	0.79	0.64	1.04	1.12	1.17	1.23
Michigan	1.07	0.81	1.01	1.08	0.94	1.08
Minnesota	1.55	0.98	0.90	1.10	0.88	0.93
Mississippi	2.36	1.69	0.79	1.06	0.89	0.90
Missouri	1.20	0.94	1.07	1.18	0.79	0.87
Montana	0.88	0.91	1.02	1.20	1.05	1.03
Nebraska	1.02	0.88	0.40	1.07	1.08	1.09
Nevada	1.19	1.07	0.89	0.92	1.10	1.15
N. Hampshire	1.00	0.89	0.78	0.91	1.02	1.04
New Jersey	0.58	0.63	1.10	1.02	1.02	1.16
New Mexico	0.76	0.73			1.11	1.13
New York	1.33	0.94	0.89	1.10	0.84	0.93
N. Carolina	1.45	1.31	0.97	0.99	0.86	0.89
N. Dakota	1.03	0.77	1.38	1.51	0.89	1.01
Ohio	1.11	0.87	1.02	1.11	0.84	0.93
Oklahoma	1.48	1.28	0.84	0.84	0.82	0.85
Oregon	1.30	1.04	0.83	0.88	0.57	1.09
Pennsylvania	1.22	0.92	1.01	1.10	0.73	0.88
R. Island	1.13	0.94	0.89	1.02	1.12	1.06
S. Carolina	1.11	0.83	1.03	1.04	0.97	1.00
S. Dakota	0.82	0.77	1.03	1.27	1.02	1.02
Tennessee	1.34	1.13	1.01	1.10	0.82	0.84
Texas	0.95	0.84	0.82	1.01	1.29	1.34
Utah	1.44	0.83	0.80	0.98	1.20	1.24
Vermont					1.00	1.00
Virginia	0.98	0.75	1.07	1.17	0.94	1.00
Washington	1.49	1.00	0.79	0.93	1.01	1.09
W. Virginia	1.45	1.15	1.30	1.21	0.87	0.92
Wisconsin	1.03	0.87	1.10	1.19	0.92	1.00
Wyoming					1.00	1.00

*Less than 10 percent of the State's children are in districts of this grouping.

groupings, property valuation per pupil (EPV/PUP) and property valuation per capita (EPV/CAP), the latter being used here as an approximate surrogate of the burden of municipal functions other than education. Both EPV/PUP and EPV/CAP are expressed relative to the State's average. The perception of a center-city district's ability to support education varies sharply under the two measures. When EPV/PUP is employed, center cities in most States have higher -- in many instances, much higher -- wealth than other districts. When EPV/CAP is used, the apparent disadvantage is considerably diminished. The use in this comparison of total population as a base does not imply that it is preferred to the better known measure of valuation per pupil; it is used to demonstrate the sensitivity of results to the measure selected.

D. The Costs of Further Equalization

The third question addressed here is, What are the costs of further equalization? For two reasons, these costs are calculated for a range of disparity levels. First, there is no consensus on what degree of disparity should be tolerated, and second, the extent of disparity that will be tolerated is in all probability going to depend on perceptions of what can be afforded. Table V shows the costs of leveling each State up to a selected disparity ratio in 1975. The disparity ratio used here is the 95:5 measure. The method used is to increase the spending in districts at the low end, while keeping other districts at their spending levels. Nationally, the costs of leveling up to a disparity ratio of 1.4 in each State would have been \$2.55 billion, and the costs to achieve the Office of Education's disparity ratio of 1.25 would have been \$5.4 billion. Costs increase fairly proportionately to decreases in the ratio. It is noteworthy

Table V. Cost to Level Each State to Selected Disparity Ratios, 1975
(Millions of Dollars)

	95:5 Disparity Ratio					
	1.40	1.30	1.23	1.20	1.15	1.10
Alabama	1	7	14	24	38	54
Alaska	1	1	3	6	9	12
Arizona	20	35	45	61	80	101
Arkansas	23	39	49	61	75	90
California	468	792	989	1,218	1,470	1,753
Colorado	29	58	78	100	126	187
Connecticut	68	108	133	162	198	239
Delaware	6	12	17	22	28	35
Florida	-	3	7	13	29	64
Georgia	210	275	311	352	396	445
Hawaii	0	0	0	0	0	0
Idaho	2	3	8	12	16	22
Illinois	168	272	338	415	503	603
Indiana	8	21	33	50	71	100
Iowa	2	3	6	12	23	41
Kansas	9	24	39	57	78	102
Kentucky	31	51	64	80	98	118
Louisiana	0	1	5	10	26	43
Maine	5	10	15	21	28	36
Maryland	87	138	178	222	270	321
Massachusetts	262	375	442	514	595	684
Michigan	83	141	229	308	401	515
Minnesota	25	53	77	108	148	191
Mississippi	34	55	67	81	96	114
Missouri	35	63	82	106	137	177
Montana	12	20	25	33	42	51
Nebraska	9	16	23	33	45	59
Nevada	-	-	1	1	3	8
N. Hampshire	7	13	18	24	31	38
New Jersey	130	212	267	333	414	507
New Mexico	-	2	3	6	12	22
New York	339	529	647	783	940	1,121
N. Carolina	9	35	59	91	126	168
N. Dakota	1	4	6	9	13	18
Ohio	97	172	221	275	342	425
Oklahoma	3	11	19	27	39	53
Oregon	4	12	17	25	37	52
Pennsylvania	37	93	134	187	255	338
R. Island	3	7	11	16	22	30
S. Carolina	11	26	37	53	71	92
South Dakota	1	3	6	10	15	21
Tennessee	37	67	104	124	150	180
Texas	86	153	207	277	358	453
Utah	0	0	-	3	11	21
Vermont	8	12	15	18	22	26
Virginia	78	120	148	180	217	258
Washington	50	91	116	147	182	221
W. Virginia	2	6	11	18	27	38
Wisconsin	16	37	53	77	107	145
Wyoming	12	20	24	29	34	40
U.S.	2,552	4,243	5,401	6,800	8,435	10,401
						12,644

Note: Figures may not add due to rounding.

that, of the \$2.55 billion required to decrease disparity in each State to 1.4, approximately 32 percent is accounted for by the nation's two most populous States, California and New York, which enroll some 16 percent of the nation's elementary and secondary school students.

The costs of equalization have, of course, increased from 1970 to 1975, as Table VI shows for the nation as a whole. A large part of the increase is attributable to inflation; the more meaningful figures in the table are the equalization costs in each year as a percentage of budget in that year, which in effect cancels the impact of inflation. As can be seen, this percentage in 1975 is very close to the percentage in 1970, confirming the evidence presented earlier: for the nation as a whole, relatively little change has taken place in this period and the change appears to have been in the wrong direction.

Added importance must therefore be attached to the actions of reform States, to which we now turn.

Table VI. National Equalization Costs, 1970 and 1975, at Selected Disparity Ratios

	95:5 Disparity Ratio						
	<u>1.40</u>	<u>1.30</u>	<u>1.25</u>	<u>1.20</u>	<u>1.15</u>	<u>1.10</u>	<u>1.05</u>
<u>1970</u>							
Eq. Costs (\$M)	1,259	2,221	2,894	3,715	4,763	6,005	7,421
% of 1970 Budget	4.4	7.7	10.0	12.9	16.5	20.8	25.7
<u>1975</u>							
Eq. Costs (\$M)	2,552	4,243	5,401	6,800	8,455	10,401	12,644
% of 1975 Budget	5.3	8.7	11.1	14.0	17.4	21.4	26.0

III. The Reform States

A. Principal Effects and Means of Achieving Reforms

During the course of the school finance reform movement in the early seventies some twenty States enacted changes in their programs, which earned for them the designation "reform States."^{15/} These States are identified in Table VII. The causes leading to reform were numerous, though not all existed in each State or carried equal weight. The growing resistance to school property tax levies and the increasing number of challenges in State courts to the then existing aid programs were often instrumental in causing reform. In some States, the expectation of a court review may have been sufficient to bring about changes in State aid programs. In other States, a growing awareness of the deficiencies in existing State aid programs coupled with demand for reforms may have been the catalytic agents.^{16/}

In this section, we have sought to identify the nature of the reform in each of the twenty States and to trace the principal results of these reforms. Descriptions of the reform programs, presented later, are based on program information contained in Public School Finance Programs, 1975-76 and the changes in the program were noted by a comparison with the programs reported in the 1971-72 edition of this series.

The school finance reforms of the seventies were characterized by a variety of goals chief of which were: increased equalization; property tax relief; and increased education expenditures. Table VII summarizes a variety of information about the principal effects and means of achieving reforms in the reform States. Information on equalization and on changing expenditure patterns was derived from Section II. Evidence of property tax relief was based in part on information provided directly by some States. For other States, information appearing in the Digest of Education Statistics for 1971 and 1976 provided important clues with regard to property tax relief. In a State where per pupil expenditures declined as a percent of the national average while the State share of current school revenues rose, it is reasonable to conclude that some property tax relief occurred.^{17/} For example, in California per pupil expenditures declined from 102.4 percent of the

TABLE VII: PRINCIPAL EFFECTS AND MEANS OF ACHIEVING REFORMS IN REFORM STATES, 1975-1976

State	Reduced Expenditure Disparities <u>a/</u> (1)	Increased Resources to Low Property Wealth Districts <u>b/</u> (2)	Property Tax Relief <u>c/</u> (3)	Increased Education Expenditures <u>d/</u> (4)	Increased State Share <u>e/</u> (5)	Pupil Weightings Utilized (6)	Rigid Rate or Levy Ceilings (7)	Disadvantaged Pupil Weights (8)
Arizona	X	X		X	X (3%)			
California			X		X (5%)			
Colorado			X	X	X (10%)			
Connecticut		X		X	X (1%)			
Florida	X	X		X		X	X	
Illinois		X	X		X (8%)			X
Indiana	X		X		X (8%)	X	X	X
Iowa	X		X		X (9%)	X	X	
Kansas	X	X	X	X	X (13%)		X	
Maine		X	X		X (13%)		X	
Michigan	X	X	X		X (6%)			
Minnesota			X		X (10%)			X
Montana <u>f/</u>		X		X	X (34%)			
New Mexico	X	X		***	***	X	X	
North Dakota <u>f/</u>	X	X		X	X (23%)			
Ohio			X	***	X (8%)			
Texas	X	X		***				
Utah				X	X (3%)	X		
Wisconsin	X			X	X (3%)		X	

*** Unchanged

a/ If the percentage changes for both measures of spending disparity shown in Table I declined, States are classified as having reduced expenditure disparities.b/ States were classified as having increased the resources of low property wealth districts if there was at least a 2 percent increase between 1970 and 1975 in these districts relative (to State average) expenditures.c/ States are classified as having provided property tax relief if total per pupil expenditures (from non-Federal sources) relative to the national average declined and the State's share of expenditures increased between 1970 and 1975.d/ States are classified as having increased their share of education expenditures if State education expenditures relative to the national average increased between 1970 and 1975.e/ Figures in parenthesis refer to increases in percentage share of education revenues from the State, between 1970 and 1975.f/ County revenues for education are now counted as part of the State contribution.

NOTE: New Jersey is excluded because its reform program was not funded until the 1976-77 school year.

national average in 1970-71 to 95.1 percent by 1975-76. At the same time, State revenues rose from 35.2 percent to 40.4 percent of current school dollars. The increase in State revenues accompanied by a relative decline in total school expenditure would seem to indicate that some local tax relief resulted.

The data summarized in Table VII suggest that some reform goals were achieved through trade-offs. Property tax relief was often obtained at the expense of expenditures for education. Improved equalization occurred in some States where average per pupil expenditures lagged. In other States, larger education expenditures did not alter equalization. Some property tax relief may have occurred in other States, though the evidence is not entirely clear from data available.

Of the twenty reform States eleven reduced expenditure disparities within their State. In eleven of the reform States, resources to low property wealth districts showed relative improvement. Eight of the eleven were also States that reduced expenditure disparities. At least ten States provided property tax relief, and ten States increased their relative education expenditures. Only four of the States with improved equalization also showed evidence of property tax relief. Of the ten States which improved equalization, six had rigid levy or rate ceilings. Of all the States, Kansas alone achieved all of the major goals of school finance reform. The Kansas reform law substantially increased State equalized revenues for education and placed a rigid lid on local leeway options. In the process, property tax relief was achieved, average education expenditures rose sharply and a greater degree of equalization occurred.

Almost invariably reform led to an increase in the share of school revenues derived from State sources. Only in New Mexico and Texas did the State share remain unchanged and in Florida, the State's share declined modestly. However, in Texas alone was the reform undertaken to increase the State share of education costs; in New Mexico and Florida the reforms were designed to alter the distribution of funds among school districts based on perceived pupil needs. In States showing the largest increase in State education revenues, Montana and North Dakota, the change was principally due to the designation of county revenues as part of the State contribution to the basic aid program.

In five of the reform States, pupil weightings were introduced as a method for counting students and calculating State aid. In all five, a foundation aid program constituted the basic distribution mechanism. In six States, a guaranteed yield or variable guarantee formula was adopted in which State aid varied with district tax choice and district wealth. This type of reform was prevalent in the midwest namely in Illinois, Kansas, Michigan, Ohio and Wisconsin. It also constituted the principal reform measure in Colorado and part of the reform programs in Maine and Montana, where a guaranteed yield program was included as a supplementary aid measure. A modest guaranteed yield program constitutes the reform in Connecticut and supplements the basic flat grants available in that State. Along with other changes in the program, seven of the States enacted rigid revenue/expenditure curbs which were designed to limit the growth in education costs, reduce expenditure disparities among school districts and provide some property tax relief.

No magic formula could be identified as a reform measure to the exclusion of all others. Any aid vehicle could be utilized to achieve greater State participation in the financing of public schools, improve equalization, increase education expenditures or result in property tax relief. Although the presence of rigid rate or levy ceilings was one structural change that appeared to be somewhat associated with reduced educational disparities, it is equally clear that in most States a more important factor contributing to reform was the commitment of additional resources for education. The principal exception to this general rule occurred in New Mexico, where reform legislation focused on the redistribution of program dollars. The additional monies generally emanated from the State coffers though in one or two States increased reliance was placed on local revenues. Without additional funds, any reform other than resource redistribution seems to have been virtually impossible.

Before proceeding with a description of the reform programs in each of the reform States, it may be instructive to place the preceding discussions of the effects of these various changes in proper perspective.

We noted at the conclusion of Section II that the costs of equalizing every State, expressed as a percentage of the budgets in 1970 and 1975, have increased and

therefore that, if anything, disparities are greater now than before. It is possible to use the data that entered into the calculation to evaluate reform versus non-reform States.

Table VIII presents these data, in the same form as in Table VI (for simplicity of presentation, only three ratios are shown).

Table VIII: Equalization Costs for Reform and Non-Reform States, 1970 and 1975, for Selected Disparity Ratios

	95:5 Disparity Ratio		
	1.40	1.25	1.10
<u>Reform States</u>			
1970: Equalization Costs (\$M).....	806	1,781	3,584
As Percent of Budget.....	5.2	11.5	23.1
1975: Equalization Costs (\$M)....	1,228	2,772	5,543
As Percent of Budget.....	4.7	10.6	21.2
<u>Non-Reform States</u>			
1970: Equalization Costs (\$M).....	453	1,113	2,421
As Percent of Budget.....	3.4	8.4	18.2
1975: Equalization Cost (\$M).....	1,325	2,629	4,858
As Percent of Budget.....	5.9	11.7	21.6

The cost to equalize serves, in effect, as an indicator of disparity, and when compared over time, serves as an indicator of progress. From this perspective, the States that reformed were, as a group, those most in need of reform in 1970. For all three disparity ratios, the disparities in these States were greater in 1970 than in the other States. By 1975, however, the reform States had reversed the situation, for it is the non-reform States that now would have to apply a greater proportion of their budgets to equalize. These data do not alter the conclusions throughout this report that, for the nation as a whole, disparities have worsened; but they explain the phenomenon. The meaning seems clear. Even though, as a group, the reform States may have accomplished relatively little towards equalization, they have been swimming against a national current towards greater disparities. Only when a

very tight constraint on disparities is considered — a 95:5 measure of 1.10 — do the two groups of States appear similar in disparity.

Reform and non-reform States can also be compared with respect to improvement in the school resources available to low tax base districts. Twenty-three States showed some significant improvement based on the 1975/1970 percentage changes in Table II. Eleven of twenty reform States and twelve of twenty-six non-reform States show improvement when measured against this criterion. Hence, there is not much difference between reform and non-reform States on this comparison.

We now turn to a detailed discussion of each State's reform program.

B. Principal Features of Reform In Each Reform State

Arizona altered its school aid program in 1974 by consolidating its substantial flat grant subsidy with its financial assistance program (equalized) thereby increasing the portion of State funds distributed through an equalizing foundation aid formula. The annual budget increase for each district is limited to 7 percent of the statewide average. This provision gives low-spending districts the option of raising their budget for the subsequent year by more dollars than the big-spending districts which are constrained by the 7 percent statewide average. However, districts may vote to increase this leeway which can reduce the equalization aim of the budget ceiling.

Arizona was successful in reducing expenditure disparities by channeling a greater share of the basic support program through an equalization formula. Contributing factors were the new expenditure lid as well as the increased funding for the program. Because substantial amounts of new monies were provided, pupil education expenditures rose from \$808 or 94.1 percent of the mean national expenditure in 1970-71 to \$1,415 or 101.9 percent of the national mean in 1975-76. The State share of education revenues increased modestly during the period from 44.6 percent to 47.8 percent. The reform legislation had a pronounced effect on low wealth districts which experienced a relatively greater growth in expenditures than did the median or high wealth districts.

California. The reform legislation, S. B. 90, failed to improve the State's equalization position and was rejected by the State Supreme Court as inadequate in the second Serrano decision. Equalization aid more than doubled between 1970-71 and 1975-76 in current dollars while the flat grant payment of \$125 per pupil remained unchanged. A revenue limit is in effect which curbs the growth in district revenues to a percentage figure set by the State. Despite these features, the program failed to improve equalization for the following reasons: 1) Continued heavy reliance on unequalized local revenues reduces the equalization impact of the State equalization program. 2) The flat grants siphon substantial sums of State money (an estimated \$633 million in 1975-76) without changing expenditure disparities in the State. 3) The revenue limit allows the same percentage change

in district revenue for all districts which converts to more dollars in big spending districts than in low spending ones. 4) The possibilities for unlimited voter overrides reduce the equalization thrust of any revenue limit.

The growth in per pupil expenditures in California did not keep pace with national changes. In 1970-71, California spent \$379 per pupil or 102.4 percent of the national average; by 1975-76 per pupil expenditures amounted to \$1,320 or 95.1 of the national mean. However, the State share of school revenues did rise from 35.2 percent to 40.4 percent by 1975-76, which suggests that some property tax relief occurred. When districts were classified by wealth, the pattern of expenditure changes was remarkably stable for the five-year period, except for high wealth districts which lost some ground. This group was probably constrained by the State revenue limits where over-rides were rejected by voters. The reform law did not change perceptively expenditure patterns when districts were classified by urban type.

Colorado provided substantial new money for education which more than doubled between 1970-71 and 1975-76. However, Colorado's reform program was hampered in part because existing revenue differentials among school districts were frozen into the aid distribution system. The State guarantees a tax base per pupil with the maximum equalized mills guaranteed to yield the authorized revenue base (ARB) for each district. The ARB is the revenues raised by a district for the equalization program in the previous year plus any State allowed percentage increase. A substantial flat grant is included in the equalization entitlement program since no district receives less than \$10.35 per mill per pupil, regardless of district wealth. A revenue limit allowed low spending districts a greater percentage increase in authorized revenue growth over the previous year than it does for the big spending districts (112% down to 107%). Despite this cap, the revenue bases of the big spending districts were able to produce enough new dollars enabling them to maintain or even increase the dollar spread in revenues among districts. District voters also have an unlimited override option which can enhance interdistrict disparities. Districts are also unrestricted in the amounts that can be raised outside the equalization program. In Colorado, high and low wealth districts made modest gains in relative expenditures during this period, while medium wealth

districts lagged slightly behind. When districts are compared on the basis of urban type, the center city of the State's SMSA (Denver) was the biggest gainer while the rural districts appear to have lost some ground.

The new program failed to reduce expenditure disparities. Nevertheless, average per pupil expenditures increased sharply rising from \$780 or 90.9 percent of the national mean in 1970-71 to \$1,422 or 102.4 percent of the national average by 1975-76. At the same time, the State share of revenues grew from 30.3 percent to 39.8 percent, which resulted in substantial property tax relief.

Connecticut enacted in 1975 a supplementary program of State equalization aid which guarantees the tax base of the town at the 85th percentile. A town's wealth base is modified by an income factor namely the town's median family income. In addition, the wealth base is calculated on a per capita rather than on a per pupil basis. In its first year of operation, 1975-76, the program's funding restricted each town to a maximum of 5 percent of its flat grant entitlement of \$250 per pupil. As a result, 143 out of the 169 towns received supplemental aid equal to \$12.50 per pupil. The funding for the program is provided by an "Instant Lottery" which is scheduled twice a year in the State.

Education expenditures per pupil have grown in the State, regardless of the supplementary equalization program, rising from \$997 or 116.2 percent of the mean national average in 1970-71 to \$1,659 or 119.5 percent of the national mean in 1975-76. State revenues which accounted for 26.3 percent in the earlier year rose slightly to 27.7 percent of the total. Connecticut continues to rely heavily on local resources for its education program.

Florida enacted major changes in its school aid program in 1973, the purposes of which were to guarantee to each pupil educational programs appropriate to his needs and substantially equal to those available to similar students regardless of geographic location and district wealth. In calculating State aid, pupil weights were introduced for pupils in the regular, special and vocational programs. Locational features were recognized through a cost of living adjustment, a feature

which is still unique in State aid programs. District wealth differences were minimized by placing a rigid lid on the amount of leeway dollars that could be raised locally which were limited to 1.707 mills, following a series of changes in the law.

As a result of the additional funds made available for education, Florida's mean expenditures rose from \$776 or 90.4 percent of the national average in 1970-71 to \$1,381 or 99.4 percent of the national average in 1975-76. Interestingly enough, the State's share of the available revenues including Federal revenues for education fell slightly from 56.0 percent in 1970-71 to an estimated 54.6 percent in 1975-76. Indeed, the data indicate that the (relatively) higher level of funding was due to increased local contributions to the foundation program. In 1971-72 the locally required millage levy was 4.3 mills. Under the new program in 1975-76, this requirement had risen to 6.2931 mills. This increased chargeback required the districts to finance a larger share of the foundation program. Despite this increased local financial contribution, the State still provides more funds than the national mean State contribution. (See Table I). The State's improved equalization position probably stems from the local leeway millage rate lid currently in effect.

The growth in expenditures among districts varied inversely with district wealth which is further evidence of Florida's progress towards equalization. When comparisons are made by urban type, it becomes clear that there were no losers in the State. Expenditures grew only slightly faster in the SMSAs cities than elsewhere.

Illinois was one of the first States to enact a guaranteed yield program, known as the Resource Equalizer. However, school districts retained as an option applying for State aid under the existing foundation program. Under the foundation aid option, the guarantee level of \$320 was retained. In addition, minimum aid of \$60 per elementary pupil and \$75 per high school pupils were guaranteed under either aid option. The new formula provides a pupil weighting of .45 for Title I eligible pupils. Under the guaranteed yield program, the State guarantees a tax bases of \$42,000 for K-12 districts for levies up to 30 mills, a tax base of \$64,615 with a rate limit of 19.5 mills for K-8 districts and up to 10.5 mills on a tax base of \$120,000 for

9-12 districts. A phase-in feature restricts the growth in State aid to any school district to 25 percent of its prior year aid irrespective of its calculated entitlement. In effect, the State guaranteed a maximum of \$1,260 per pupil while average expenditures amounted to \$1,452 in 1975-76. This new Resource Equalizer program is more advantageous for most districts, and nearly 900 of the over 1,200 districts utilize this approach.

The new resource equalizer program managed to reduce expenditure disparities existing in the State between 1970 and 1975. At the same time a sharp increase in State revenues for education occurred rising from 38.2 percent to 46.2 percent. This suggests that substantial property tax relief probably occurred in the low wealth districts under the resource equalizer program. The Title I weighting added substantially to State resources going to Chicago, where between the fall of 1971 and 1975 current expenditures rose from \$1,240 to \$1,941 per ada. This latter figure is nearly \$500 above the State average expenditure of \$1,452 per ada. The minimum aid guarantee along with local leeway tax options with no recapture provisions are other features which tend to perpetuate expenditure disparities under the Illinois school finance plan.

Between 1970-71 and 1975-76 per pupil expenditures as a percent of mean national expenditures declined from 109.2 percent to 104.6 percent. In current dollars, the change was from \$937 to \$1,452.

School resources in low wealth districts grew at a faster pace than they did for medium wealth districts. Highest wealth districts registered the lowest growth. This suggests that the lowest wealth districts benefitted the most from the new State aid program. When districts are compared by urban type, changes in expenditures were fairly consistent throughout.

Indiana adopted a school finance plan in 1975 which introduced a series of pupil weights for program cost differentials for special and vocational education and a modest weight of .2 for compensatory education. For 1975-76, the foundation aid formula guarantee was set at \$690. Average current expenditures were \$1,160 in that year, and required substantial local expenditures. The State sought to lessen

reliance on local property taxes by freezing the local levies to the lesser of a district's normal levy or 30 mills on the 1974-75 adjusted assessed valuation in each district.

With its new law, Indiana succeeded both in reducing somewhat expenditure disparities and providing some property tax relief as evidenced by the growth in the State share of school revenues, estimated at 32.5 percent in 1970-71 and at 40.6 percent in 1975-76. At the same time, average per pupil expenditures lagged further behind mean national expenditures. In 1970-71, these were \$770 or 89.7 of the mean national average of \$858; by 1975-76, the State mean expenditure of \$1,160 amounted to 83.5 percent of the national average of \$1,388. It appears likely that the equalization goals and local property tax relief were achieved in part by restricting the aggregate growth in education expenditures.

The relative change in resources lagged only for medium wealth districts, when the change in resources are compared among school districts. High wealth districts maintained a slight edge. The rigid levy controls may have worked to the disadvantage of medium wealth school districts whose levies were probably frozen at lower levels than high wealth districts. When districts are classified by urban types, the relative change in revenues were not pronounced.

Iowa is engaged in a long-term restructuring of the financing of its public schools aimed at achieving State participation equal to 80 percent of the Statewide average cost by 1982. In 1975-76, the State foundation aid guarantee was set at \$857 which equalled 73 percent of the State cost per pupil of \$1,174. The State foundation guarantee rises each year by one percent of the State average cost as determined by the State comptroller. Each district's allowable annual budget growth is restricted to a percentage increase specified by the State. (For districts spending below the State average cost, the allowable growth is subject to further limitations). A minimum State aid level guarantees to each district \$200 per pupil.

Iowa improved its equalization position by annually raising its foundation dollar guarantee thereby enabling those low-spending districts which are poor to both increase their expenditures and to rely more heavily on State resources. A budget

lid, equal to 5 percent of the State's average cost per pupil in 1975-76 placed an upper limit to big spending districts. This lid was restrictive enough to curb the growth in expenditures, for Iowa's per pupil expenditures have declined from 110.0 percent of the mean national average, in 1970-71 to 104.8 percent in 1975-76. The resulting growth in State participation is apparent by figures revealing percentage growth in State revenues for education from 29.2 percent to 38.0 percent between 1970-71 and 1975-76. This relative growth in State revenues suggests that substantial property relief has occurred.

The relative growth in resources of low wealth districts lagged behind other districts and may be due to a provision in the program which restricts historically low spending districts to a smaller percentage growth in expenditures. (This assumes that the low-wealth districts were also the small spenders). Center SMSA cities also experienced a lesser growth in expenditures than did other districts.

Kansas enacted a new school finance program in 1973 in response to the State court ruling in Caldwell v. Kansas declaring the existing program unconstitutional. The new program guarantees a budget for each district which is based on the district's enrollment size, its current budget and its local tax effort. A budget limit is in effect which limits a district budget growth to 10 percent of the median budget for its enrollment category. Districts spending below the median may increase their budget as much as 15 percent over the prior year up to the median budget expenditure. As a result, each district has a distinct guaranteed budget level and the State share of this budget varies by district wealth and the local tax effort. Kansas is one of the few States which includes income in calculating local wealth.

Kansas managed to reduce expenditure disparities under this program and assume a greater burden of the cost of education. The State share of school revenues rose from 31.2 percent in 1970-71 to 43.8 percent in 1975-76. This sharp rise in State revenues provided tax relief for low wealth districts. Equally dramatic was the growth in average per pupil expenditures which went from \$771 to \$1,475 during this same period, or from 89.8 percent of the mean national average to 106.2 percent in the later year.

During this period, the changes in resources in the high wealth districts lagged behind all others and may be attributed primarily to the provision limiting district budget growth which is more restrictive for big spending districts. Expenditures grew fastest in SMSA cities when districts were compared by urban type.

Maine enacted legislation which was designed primarily to lessen reliance on local property taxes by increasing the State's share for financing public schools. The law explicitly alters the mix of taxes for public school support, i.e. local property taxes and State sales and income taxes. In 1971-72, the State was committed to paying one third of the school costs; under the new law State revenues were to cover 50 percent of costs in 1975-76. A statewide property tax was enacted which provides the balance of taxes due. Maine is one of three States which have statewide property taxes for education. School property taxes which were previously retained by the districts are now transferred to the State. In turn, the State forwarded to each district its entitlement of \$694 for elementary pupils and \$1,078 for high school pupils under the 1975-76 guarantee level. Additional allocations were paid to districts the amount of which varied with the amount spent by districts in the 1973-74 base year.

A 2½ mill lid on optional local leeway dollars guaranteed \$125 per pupil. In addition, districts spending below the State average are allowed to raise additional local dollars up to the State average.

Maine did not enhance its equalization measures with its new program. The intricate hold harmless guarantees undoubtedly help perpetuate disparities. By increasing the State share of the cost less reliance was placed on property taxes resulting in some property tax relief. At the same time, Maine's average per pupil expenditures slipped from 88.9 percent of national average, \$763 in 1970-71 to 86.2 percent in 1975-76 when they stood at \$1,197 and the national mean was \$1,388. Meanwhile, the State share of education revenues rose from 31.9 percent to 44.6 percent.

In the five-year period, school resources grew the most in low wealth districts and the least in high wealth districts. Additional equalized State revenues as well as

the ceiling on local leeways were probably chiefly responsible for the differential growth patterns.

Michigan turned to a guaranteed yield program in 1973 in response to a State court decision (subsequently reversed) in Milliken v. Green which declared the previous financing system unconstitutional. The new State school aid program provided a two tiered aid system in 1973-76 which guaranteed \$42.40 per mill for 20 mills and \$38.25 per mill for an additional 7 mills. This total guarantee is equal to \$1,116 in State and local funds for any district levying the full 27 mills. (State average expenditures per pupil were \$1,366 in that year). A municipal overburden feature primarily benefits Detroit by providing additional funds for school districts with non-school operating levies 25 percent above the statewide average.

Michigan's new program reduced expenditure disparities and increased the State share of revenues for education from 45.5 percent in 1970-71 to 51.7 percent in 1975-76. However, local tax leeways and the absence of a recapture of any dollars raised in excess of the guaranteed amount does perpetuate some of the expenditure gap among districts. The guaranteed yield program indisputably provided property tax relief to low wealth/high effort districts. Yet the guaranteed dollar amounts were insufficient to entice many local districts to raise local millages in order to qualify for additional State dollars. In 1975-76, out of 529 districts, 394 districts levied less than 27 mills. Between 1970-71 and 1975-76, average State per pupil expenditures (\$937) have slipped from 109.2 percent of the mean national per pupil expenditure (\$858) to \$1,366, an amount equivalent to only 98.4 percent of the National average (\$1,388) in 1975-76. The data suggest that Michigan has bought property tax relief at the expense of its education program outlays.

The guaranteed yield program had a somewhat larger impact on the lowest wealth districts where resources grew the fastest. When districts are compared by urban type, the center SMSA cities fared the least well while rural districts showed distinct gains in school expenditures. The poor performance of the guaranteed yield program in Michigan's cities probably results from a variety of causes including those related to municipal overburden, perhaps to a low demand for education services, and even to the urban wealth bases themselves.

Minnesota was the first State to enact school finance reform legislation in the seventies by raising substantially the foundation support level to an amount approximating the statewide average per pupil expenditure. The principal purpose of the law was to lessen reliance on property taxes by increasing the State share of education costs. Property tax relief was also provided through a program of homestead credits and other minor State aids to school districts.

A minimum of .5 for each AFDC pupil was added to the district's pupil count. Higher weightings are allowed for districts with high concentrations of AFDC pupils. A hold harmless guarantee is also in effect. In 1975-76, the foundation program guaranteed \$900 (a somewhat lesser amount for historically low spending districts) for pupils in grades 1-6 and \$1,260 for pupils in grades 7-12.

The new funding program has led to a decrease in school expenditures with average per pupil expenditures (\$1,021 in 1970-71) falling from 118.9 percent of mean national average in 1970-71 to 109.2 percent in 1975-76 when they amounted to \$1,516. At the same time, the State accounted for a larger share of education revenues which rose from 44.4 percent to 54.7 percent of the total. Expenditure disparities were not reduced during the period, which may be due as much to the additional weightings provided for AFDC children as to unlimited leeway options for raising revenue and the hold harmless provision which is in effect.

The high wealth districts were the principal gainers in school resources while the poorest districts gained the least. When districts are compared by urban type, school expenditures grew fastest in center SMSA cities. These data suggest that the center cities are among the high wealth districts, which benefit from State aid provided as a result of the AFDC pupil weights.

Montana altered its school finance program in 1973 at a time when there was a growing concern that the then existing aid formula could not survive close judicial scrutiny. The new law provided that county levies for schools be collected as statewide taxes, thereby dramatically increasing the State share of educational revenues from 24.0 percent in 1970-71 to 37.6 percent in 1975-76. Each district is

also guaranteed 25 percent of its foundation program amount where districts levy an additional 9 mills in elementary school districts or 6 mills in high school districts.

The new funding formula has led to relatively larger increases in education expenditures. In 1970-71, Montana's per pupil expenditures (\$866) were 100.9 percent of national average; by 1975-76, they amounted to 112.0 percent of the national expenditures, rising to \$1,554.

Expenditure disparities persist, however, and may be due to continued heavy reliance on local taxes. Differences in local wealth bases as well as the possibility of unlimited voter leeway options may also account for the growth in such disparities. School resources grew fastest for low and medium wealth districts while the growth in resources for districts in the wealthiest quartile were substantially below average.

New Jersey. In a landmark decision, Robinson v. Cahill, the New Jersey Supreme Court ruled in 1973 that the State's system of supporting public schools violated the State Constitution because "the State has never spelled out the content of the educational opportunity the Constitution requires" in meeting the mandate that there be maintained a "thorough and efficient system of free public schools." The Court ordered the State to develop a plan for financing public schools which meets the mandate. Accordingly, a "Public School Education Act of 1975" was enacted which among other provisions spelled out a method of distributing State aid.

Under the new law's provisions, each district is guaranteed a State support ratio which is the lesser of its prior year budget or the State support limit. For each district, the State's support ratio is derived by dividing a district's equalized valuation per pupil by the State's guaranteed valuation and subtracting the quotient from 1.000. The State's guaranteed valuation was set at 1.3 times the State average valuation per pupil for 1976-1977. A hold harmless provision guarantees each district a minimum of 10 percent of the State support limit. Cost factors were introduced which provided additional aid guarantees to special needs pupil populations. In addition, a spending limit was incorporated to prevent districts

receiving the largest increases in State aid from spending all the new funds on their education program without providing some property tax relief. The expenditure limit varies inversely with district expenditures. An appeals procedure was established which allows districts to seek relief from their expenditure caps.

The new law required an increase in State funds for implementation of well over \$150 million which were not forthcoming until a gross income tax law was passed in July 1976. As a result, the new equalization law was not implemented until the 1976-77 school year. Continued funding of the new program rests upon the renewal of the income tax law which is due to expire two years after its enactment.

New Mexico in 1973 replaced a school aid program based on instructional units with an aid program based on pupil weights and required a uniform millage levy. Optional local leeway levies are not allowed and 95 percent of the required millage as well as Federal monies including impact aid are counted as the local contribution to the State Equalization Guarantee Distribution.

With this program, New Mexico succeeded in reducing expenditure disparities which was accomplished both as a result of the rigid ceiling on local levies and by counting Federal dollars as part of the required local contribution. Despite the major redistribution of dollars which occurred between 1970-71 and 1975-76, New Mexico did not alter its share of school revenues, which stood at 63.4 percent of total revenues in both years. In addition, State average per pupil expenditures as a percent of the national average were also remarkably stable going from 90.4 percent in the earlier year to 90.8 percent (\$1,261) in 1975-76.

New Mexico's reform program undoubtedly helped most the lowest wealth districts which experienced the fastest growth in school resources. For high wealth districts the resource growth was slowest.

North Dakota added substantial new money to its foundation support program which guaranteed \$640 per pupil in 1975-76. A schedule of pupil weightings for district grade, span, sparsity and class size the basic guarantee. County school taxes were

henceforth earmarked for the foundation program and a district millage requirement was introduced. In effect, county revenues are now considered part of the State contribution and district taxes are no longer optional but are required in order for a district to qualify for State foundation aid. The district tax requirement led wealthier districts to support a larger share of the foundation program.

The program appears to have been designed primarily to increase financial support for public schools. On that score, the new program was successful in raising average per pupil expenditures from \$689 (80.3 percent of the mean national average in 1971-72) to \$1,207 (87.0 percent of the mean national average in 1975-76). Some additional equalization has also occurred with the new program. The increased share of State education revenues rising from 25.8 percent in 1970-71 to 48.8 percent in 1975-76 reflect the designation of county taxes as State taxes. The new program in North Dakota had by far the greatest impact on low wealth districts which benefitted the most from the higher foundation support levels.

Ohio added a guaranteed yield program to its foundation program and raised the guaranteed foundation level. The State guaranteed a program of \$1,380 per adm in 1975-76 for any district levying 30 equalized mills (\$48 per mill for the first 20 mills and \$42 for each additional mill up to a maximum of 10 mills). Under its current law, districts must levy a minimum of 20 mills, equalized, whereas no minimum district requirement had previously existed.

Despite the higher guarantee levels, average per pupil expenditures have remained relatively unchanged as a percent of the national average. In 1970-71, mean per pupil expenditures in Ohio amounted to \$778 or 90.6 percent of the national average; by 1975-76 the States mean expenditures were \$1,264 or 91.1 percent of the national average. The new program has had no discernible impact on equalization in the State. Under the new law, Ohio has raised the State share of education revenues from 28.8 percent in 1970-71 to 36.6 percent in 1975-76. It is likely that the new program provided some property tax relief with this growth in State revenues. There was no perceptible difference in the growth in school resources

for low and medium wealth districts during this period while some lag in resource growth occurred among high wealth districts. Rural districts appear to have experienced a slight edge in the growth in school expenditures while changes among the SMSA districts were indistinguishable.

Texas retained its foundation aid program with significant modifications. A law enacted in 1975 substantially raised the level of foundation support. The wealth measure in calculating the local contribution shifted to assessed property valuations from an index of ability to pay. A uniform requirement of 30 mills was enacted as the local contribution to the foundation program. However, a hold harmless guarantee provision assures each district a minimum 1.04 percent of State aid received during 1974-75. A new program (\$25.4 million) earmarked funds for compensatory education and a supplementary equalization program (\$30.0 million) was also enacted.

As a result of these new features, the new Texas program was more equalizing. The share of education revenues derived from the State remained virtually unchanged between 1970-71 and 1975-76, going from 49.3 percent of total revenues to 50.1 percent in the latter year. However, some improvement did occur in average per pupil expenditures which rose from \$636 or 74.1 percent of the national average to \$1,094 or 78.8 percent of the national mean during this same period. Resource growth lagged for high wealth districts while expenditures in the SMSA districts outpaced slightly those for rural districts. Within the SMSAs, changes in expenditure growth pattern were barely discernible.

Wisconsin's program guarantees a wealth base per pupil, the size of which depends upon each district's grade level, with the guarantee level set at \$1,405 per pupil in 1975-76. The guarantee varies for each district, reflecting actual district expenditures. A secondary equalization aid equal to a smaller amount is guaranteed for districts spending above the \$1,405 level with the actual amount again depending on district grade span wealth and actual spending. In effect then, Wisconsin operates under a non-linear guaranteed yield program. Recapture provisions which were due to become effective were nullified by the State courts.

Transitional aid is provided to districts too wealthy to share in equalization aid, though the actual amount diminishes from year to year. A ceiling on the annual growth in district expenditures equal to 110 percent of the statewide average is also in effect.

Between 1970-71 and 1975-76, per pupil expenditures rose faster in Wisconsin than for the nation as a whole, rising from \$977 or 113.9 percent to \$1,618 or 116.6 percent of the national average. At the same time, the State share of school revenues rose modestly from 29.3 percent to 32.1 percent of the total. The pattern of expenditure disparities persist, however, and may be due as much to the modified hold harmless provision as well as to provision allowing generous district expenditure growth. The heavy reliance on local revenues may also be contributing to inter-district expenditure disparities.

Medium wealth districts showed the greatest gain in resources while high wealth districts were slowed. The expenditure limit was probably responsible for this differential growth. Expenditures grew fastest in SMSA center cities, while the lag appeared greatest in other SMSA districts. It is likely then that many of these latter districts are among the high wealth districts being affected by the expenditure limits.

IV. SUMMARY AND CONCLUSIONS

When disparity is measured by the ratio of expenditures in high-spending districts to expenditures in low-spending districts (omitting the very highest and very lowest districts to account for possibly justifiable variations), 39 States exhibited disparities of 1.5 or more in 1970. That is to say, some children in a State received at least half again more than others. In 4 States, the disparity ratio was 2.0 or higher. These disparities were strongly related, in almost every State, to variations in property wealth among districts. Historically, the schools have been supported by the local property tax; districts with high property valuation per pupil not only can raise more money for education, they can do so with less tax effort. These inequalities have led to demands by State courts that disparities be lessened and that the link between expenditures and local wealth be weakened or eliminated.

By 1975, disparities in the nation as a whole actually increased, with 40 States exhibiting disparities of 1.5 or greater. Only in 20 States did disparities appear to decrease at all. Low-wealth districts improved their status somewhat over this five-year period, although in most States they still spent considerably less than their State's average.

These results are surprising in view of the fact that a school finance reform movement was under way in the 1970s, involving 20 States. Many of these States were those most in need of reform — in 1970, only two of them showed a disparity ratio less than 1.5. By 1975, 8 of the 20 States had substantially reduced disparities, but 6 exhibited greater disparity than in 1970. (Some States apparently set reform objectives

other than disparity reduction, most notably the relief of property tax burdens.) Even though, as a group, these States have made less progress in reducing disparity than might have been hoped for out of a reform movement, they were swimming against a national current towards greater disparity.

Central city districts are of particular interest in school finance reform, because such districts typically spend more per pupil and have higher property valuation per pupil. The study has not investigated the claim that higher spending is justified by higher costs for educational services and greater needs of many of its students. It has investigated the claim that property valuation per pupil fails to reflect the greater burden that cities bear in supporting municipal functions in addition to education. When district wealth is calculated with population rather than pupils as a base (an approximate way to account for total service burden), the advantage of central city districts considerably diminishes. These findings suggest that the impact of school finance reforms will depend quite strongly on the way in which costs, needs, and ability to pay are defined.

If the education system is to reduce core program disparities in the future, a decision must be made as to the extent of disparity that can be tolerated. As in most policy decisions, this one entails consideration of principles and practical constraints. Too loose a criterion might violate principles of equal educational opportunity; a very strict criterion could call for funds that might not, in practice, become available. The costs of equalizing so that each State met a disparity criterion of 1.25 — a ratio employed in an Office of Education regulation

relating to Federal impact aid -- would have been \$5.4 billion in 1975. Half that amount would have been required for all States to meet a 1.40 criterion. These are substantial amounts, but unless action is taken toward greater reform, the amounts in the future will apparently become greater -- not only because of inflation but also because of an apparent trend toward increasing disparity in America's schools.

NOTES

1. The present report presents preliminary results from a study sponsored by the Office of the Assistant Secretary for Planning and Evaluation, Department of Health, Education, and Welfare.
2. As an example of other recent comparative studies, see Handbook for State Legislators, Conference of State Legislatures, Washington, D.C., 1976.
3. The data bases for the two years are composite collections from several sources. School data are from the ELSEGIS (Elementary and Secondary Education General Information System) data bases collected by the National Center for Education Statistics for school years 1969-70 and 1974-75. Data from the 1970 Census was added to the files for both years. Property valuation as of 1970 was added to the 1969-70 files; property valuation as of 1973-74 was added to the 1974-75 file. The samples are approximately 4,550 for 1969-70 and 5,800 for 1974-75.
4. The COE reported for each school district is multiplied by the ratio of (1) local and State revenues plus impact aid to (2) total revenues.
5. The treatment of Federal impact aid, or SAFA, as local revenue is based on the rationale that these funds are intended to offset the loss in local revenues occasioned by the tax-exempt status of Federal property, an approach that is consistent with the fact that the funds are for general support rather than for Federally defined programs. The ideal treatment of SAFA would be to count as local revenue only that fraction that is equalized, in accordance with Federal regulations; but the data bases do not permit this calculation.
6. Under contracts with the National Center for Education Statistics and the National Institute of Education, Killalea Associates, Incorporated, is developing prototype cost-of-education indexes.
7. The choice of pupil counting method can make a difference, as has been pointed out by a number of analysts. In particular, places with high absentee rates would generally suffer in the allocation of State funds if the State used average daily attendance.
8. The 95:5 measure is subject to several criticisms. In analyzing within-State disparities, it seems appropriate to disregard highly unusual circumstances that may justify high expenditures, such as the ranch school districts in certain States. When applied to all States, however, it assumes that each State has circumstances which justify variations in expenditures, which seems unlikely. Moreover there is considerably less justification for excepting the lowest-spending districts than for excepting the highest-spending districts.
9. Students are grouped into quartiles according to their districts' property valuation per pupil: the fourth of a State's students that are in districts with the lowest valuation per pupil, the fourth that are in districts with the highest, and the two middle quartiles (that

combined into one group for ease of presentation). As can be expected, some districts (particularly very large ones) have students in two quartiles; in such cases, a district's students are all "tagged" with the same property valuation and then distributed across the quartiles; they are also tagged with the district-wide average expenditures per pupil. It is then possible to compute the (pupil-weighted) average expenditures in the quartiles.

10. An SMSA is an area that includes at least one city with 50,000 or more inhabitants or a city with 25,000 or more inhabitants which, with contiguous places, makes a single community of at least 50,000. For a precise definition, see Statistical Abstract of the United States: 1975, Bureau of the Census.
11. It is difficult to determine how an adjustment factor should be calculated. Actual differences in expenditure levels between elementary and secondary districts in a State could be used, but this would be tantamount to assuming no discrimination. Moreover, such an adjustment might gloss over the equally interesting differences in expenditures between low-wealth and high-wealth secondary districts. The ideal resolution for a disparity analysis, is to associate each elementary district with the secondary district to which it sends its students; then, under the reasonable assumption that parents would not discriminate against their younger children, the average expenditure in this aggregation of districts produces a figure that can validly be compared with unified districts. Unfortunately, the data required for this aggregation are not available.
12. The judgment was made by comparing the two measures under the following criteria. A State was marked 'Yes' if the change showed at least four percent improvement under both measures. A State was marked 'No' if neither measure showed four percent improvement. In some instances, a State showed no progress under one measure but four or more percent improvement under the other; in such instances, a State was marked 'Yes?' A question mark was applied to three States for which the two measures indicated opposite trends.
13. It should be noted that this kind of result might be thought to support the view that States operating many districts could improve their equity status through district consolidation. Whether or not their status would improve depends on the measure of equity, as has been pointed out in Inequality in California School Finance, Rand Corporation, March 1975. Moreover, it could raise new questions about the unit of observation; for very large districts, equity considerations might involve intradistrict disparities, which are not analyzed here.

14. The requirement is specified in 45 CRF 115.63. States have also set their own requirements. The California Supreme Court has required that, after a period of years of phased-in reform, the State's system should exhibit a disparity no greater than \$100 per pupil from place to place. California's expenditures (as defined in this study) averaged \$1,095 in 1975, and accordingly the court criterion is even more limiting than that set by the Office of Education.
15. See National Council of State Legislators, School Finance Reform: Legislator's Handbook; Education Commission of the States. School Finance Reform in the States, 1976-77.
16. The reform program in New Jersey was not funded until the 1976-77 school year and is not reviewed here.
17. An alternative indicator of local relief might merely be an increase in the State's share of school revenues. This increase would fail to differentiate between increases in the State's share that went to raise total school expenditures and those that provided local tax relief.

APPENDIX 2

The School Finance Equalization Activities
of the National Institute of Education

Prepared for the

Subcommittee on Elementary, Secondary and
Vocational Education

Committee on Education and Labor
U.S. House of Representatives

by

Denis P. Doyle, Chief, and
David R. Mandel, Program Officer

School Finance and Organization Division
National Institute of Education

Introduction

With the establishment of the School Finance and Organization Division (SF60) a little more than two years ago, the National Institute of Education began a school finance program. In language accompanying the 1974 budget, the Congress had directed the Institute to undertake more "goal oriented research..." such as work in the field of school finance, and NIE's first school finance awards were made in June 1975. They were designed to assist state and local governments by focusing on the needs of policy makers faced with the challenge of school finance reform.

The Institute's first initiative in this area was directed to State Legislatures, the policy making bodies with legal responsibility for financing schools. NIE's first school finance contract was with the Legislators' Education Action Project (LEAP) of the National Conference of State Legislatures (NCSL), leading to the publication of a legislator's handbook of school finance reform. Since that time, NIE's program has expanded to include technical assistance to state legislators, policy analyses of the fiscal and organizational effects of reform, fundamental research on measurement and methodological issues and dissemination of the latest judicial rulings, legislative initiatives and research findings. These projects have been consciously aimed at state legislators and other key state and local policy makers who bear the responsibility of financing elementary and secondary education. This represents a new approach for the Federal Government which traditionally has supported non-federal education policy formulation through grants to State Departments of Education.

Technical Assistance

NIE's technical assistance activities are supported through contracts with the Legislators' Education Action Project at the National Conference of State Legislatures (LEAP/NCSL) and the Education Finance Center at the Education Commission of the States (ECS), both of which work with the States in designing more equitable school finance laws. These activities are jointly funded by NIE and other sources: NCSL and the Ford Foundation provide support for LEAP, and the Education Commission of the States and the Spencer Foundation support the Education Finance Center.

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LEAP/NCSL also administers a competitive cost-sharing program which directly funds legislative policy studies in States attempting to improve their finance laws. These efforts have been unusually successful with the enactment this year of reform legislation in Missouri, South Carolina, South Dakota and Tennessee. Michigan and Ohio have also received cost-sharing awards and the state legislatures in Florida, Illinois, Kansas, New York and Utah are presently engaged in NIE supported finance research.

Policy Studies

NCSL and ECS also provide NIE with a series of policy papers each year which are a direct outgrowth of their technical assistance activities. During the past year these have included studies of:

- o The Regressivity of the Property Tax,
- o The Impact of State Controls on Local School Spending,
- o State Support of Capital Expenditures, and
- o The Fiscal Effects of Declining Enrollment.

In addition, the Institute has funded two major longitudinal multi-state analyses of the fiscal and organizational effects of reform. In both cases the Institute is breaking new ground. Examination of finance reforms has previously focused on simulations of potential effects and individual state studies of actual effects. The fiscal effects study attempts to isolate three factors: the impact of new funding, the components of the formula, and the fiscal response of local school districts; this work will provide legislators with a better appreciation of the choices available to them. The organizational effects project will examine the impact of reform legislation at the local level, with special emphasis on shifts in state/local intergovernmental relations.

An examination of the effects of finance reform on poor and minority children is also in progress. Under the direction of Intercultural Development Research Associates this investigation of finance reform in six states is designed to determine if these new laws have in fact proved beneficial to those students who were the anticipated beneficiaries of the numerous judicial rulings that began with the Serrano suit in California.

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We are also examining the California School Finance Simulation Model and have supported an international comparative study of finance practices at the primary school level. This latter effort, conducted at OECD/CERI, promises to challenge the common wisdom that centralized financing must ultimately lead to the diminution of local autonomy.

While most of our efforts are targeted at interdistrict equalization, the question of equalization among schools within a school district remains important and challenging; equalization at higher levels of government may mean little if not translated into operational terms at the school building level. Accordingly, the Institute is supporting the National Urban Coalition in an examination of "school site lump sum budgeting" in Florida and California; this budgeting technique is intended to provide greater autonomy at the school building level and to assist the process of intradistrict equalization.

Historically, an important policy for achieving equalization within States has been the consolidation of school districts, particularly in rural areas. An NIE funded study, Education in Rural America: A Reassessment of Conventional Wisdom, questions the utility of such efforts, and suggests that an approach other than consolidation may be preferred to achieve fiscal equalization in rural areas.

Fundamental Research

This work, which includes building theoretical frameworks and refining methodological approaches has largely grown out of our initial technical assistance and policy studies activities. NIE has funded studies of alternative measures of wealth, the viability of pupil weighting systems, the creation and utility of cost-of-education indices, the measurement of equalization effects and the development of local response models.

The ability to obtain equitable and comparable measures of local wealth for each Local Education Agency (LEA) in a state is particularly important when local revenues are based almost exclusively on the property tax. These investigations, to date, have focused on the effects of employing alternative measures of local wealth in various equalization schemes.

Pupil weighting systems are based on the idea that equal educational opportunity does not mean equal per pupil expenditures, as it is widely acknowledged that the financial need of each district depends on the mix of students enrolled. These systems, now in existence in Florida, New Mexico and Utah and just legislated in South Carolina and Tennessee, attempt to equalize disparities by reflecting differential needs among districts. NIE is examining how these systems were designed and initiated, and is attempting to identify the costs and benefits of pupil weighting vs. categorical funding plans.

Cost-of-education indices play a similar role by compensating for price differentials between districts. Florida is the only state to adopt such an index, although interest in them is growing. This work is largely exploratory as the methodology is still limited, but should result in an index that is both technically acceptable and readily understandable.¹

The measurement of interdistrict disparities has received attention from the research community for some time and is a slowly-evolving art. A number of attempts have been made to characterize the status of state finance systems with only modest success. There is a spirited debate on this issue as it bears on the question of how well new finance laws meet judicial mandates, a subject of substantial concern to state policy makers. This issue has also been raised by the Office of Education's standards as required for the Impact Aid Program.² Given the current environment and the importance of this subject, NIE has recently decided to commission a study that will examine a set of such measures from the perspective of their suitability for making interstate comparisons.

The question of how local districts behave in the face of new dollars is a subject that has been with us for some time and has often frustrated the designers of school finance simulation systems. Improving the utility of these simulations is crucial, for they are a tool upon which State Legislatures place heavy reliance in fashioning new finance laws which must inevitably reflect the political realities of each State.

1 These two criteria have more often than not been honored in the breach. This study will analyze several alternate methods of constructing cost-of-education indices with an eye toward their technical merit, their differences from one another, and their acceptability for actual use by a state.

2 States whose finance systems satisfy the USOE standards are allowed to treat Impact Aid funds as local revenue, while those states that fail to meet the standard may not. States in the second category, that make state aid a function of local wealth, therefore find Impact Aid to have a disequalizing effect.

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NIE has therefore decided to sponsor research on the development of models of local response to finance reform legislation. The new laws, more often than not, result in changes in the tax price of education and present LEAs with the opportunity to trade-off school expenditures for property tax relief. The choices that are made then, directly influence the degree to which expenditure equalization is achieved. It is therefore quite important that local response be well understood when new finance legislation is being drafted.

Dissemination

NIE supports the publication of the ECS quarterly newsletter, Finance Facts, which is designed to keep the school finance community abreast of current developments in the courts, the Congress, state legislatures and academia. For the past two years ECS has produced a summary of the 50 state finance systems displayed on a giant wall chart titled "School Finance at a Glance"; this publication serves as a ready reference to legislative staff and scholars working in this field. The Institute also attempts to make a special effort to insure that important research findings reach key policy makers at the local, state and federal level who are responsible for the shape, structure and fiscal health of elementary and secondary education in the United States. For example, the Legislators' Handbook has been distributed to key legislators in every state in the union.

Budget

The following table displays the amounts spent in the two and one half years that NIE has supported school finance and organization research.

Table 1

Expenditures for School Finance and
Organization Studies

<u>FY'75</u>	<u>FY'76</u>	<u>FY'77</u>
\$64,000	\$1,604,000	\$977,000

Although the total expenditure is not explicitly directed at equalization questions, each of NIE's school finance and organization projects has incorporated equalization issues.

Appendix A displays the full complement of SF60 projects, with short titles and budget figures. Project resumes are available.

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As indicated earlier in this report, NIE's contract with NCSL/LEAP and the ECS School Finance Center are matched by foundation and institutional grants. In addition, the school finance work supported at OECD/CERI is matched by institutional and country contributions. At the same time, NIE, through an interagency agreement, supports a portion of the school finance policy center of the Assistant Secretary for Education. These various cooperative efforts help to assure a full exchange of information, avoid duplication and provide greater return on the investment of NIE research dollars.

The most recent activity of this kind is one which is particularly promising. The Bureau of Indian Affairs (BIA) is under Congressional mandate to develop a system of direct funding for BIA schools; to accomplish this objective, BIA transferred \$110,000 to NIE, which allowed NIE to conduct a research competition this past summer. Because of NIE's substantial interest in the questions raised by this study, the Institute will provide a modest supplement to the BIA award.

The Future

As a research program in school finance equalization issues becomes firmly established at NIE, a number of pertinent questions are being added to the Institute's research agenda this year.

Equalization and Excellence - From the outset of the school finance reform movement the question has been raised as to whether interdistrict equalization must inevitably threaten schools of excellence. An examination of tax rate and expenditure controls is nearing completion and should shed some light on this issue. In addition, NIE and the Woodrow Wilson International Center for Scholars have sponsored a seminar to determine if there is an inherent incompatibility in jointly pursuing the goals of equalization and excellence. The seminar is designed to suggest new lines of research on this matter.

Education Personnel - The nation's teaching population is becoming increasingly older, less mobile and more highly paid. Declining and shifting enrollments, inflation, generous collective bargaining settlements with costly fringe benefit packages, and underfunded and minimally vested pension systems contribute to this problem. The Institute will embark on a research program designed to examine various strategies to address these issues. This would include plans to encourage teacher mobility through early retirement, increased pension portability, voluntary exchange programs and other mechanisms. A broad review of pension systems may also be in order. The same set of factors raise questions of certification and staff development as seniority rules strip the

education system of many of its young specialists. Finally, there is the threat to women and minorities posed by retrenchment, an issue that the schools and the Institute have only begun to examine.

Public Finance Issues - The financial health and stability of the nation's elementary and secondary schools is dependent on sound and equitable local and state tax structures. A more vivid example of this principle cannot be found than the plight of the New York City and Philadelphia schools. Although the issue of school finance is often thought of in terms of distributional equity the generation of revenues is equally important. In many cases, it is the revenue question that frustrates the efforts of legislatures to equalize their states' education systems.

Public finance questions, of course, go beyond education and deal with the full array of state and local government programs. Research on this subject will have a wide audience and should have a broad base of support that would involve a variety of federal agencies and elements of HEW as well as NIE. The issues vary and include such topics as studies of fractional assessment practices, property tax relief measures (e.g., circuit breakers), capitalization effects of shifting tax prices, statewide property taxes, the progressivity and elasticity of alternate tax packages, zoning and neighborhood revitalization practices, the impact of schools on neighborhood stability, and the social and economic consequences of maintaining the status quo. An in-house study of the tax capacity of the states is now underway.

Special Populations - It is now clearly recognized in all school finance debates that if equal education opportunities are to be provided for all students the system must account for differential education demands by students with different education needs. While the Federal Government has taken the lead in providing additional dollars for compensatory education, bilingual education, and for the education of handicapped children, the demands on the States to adjust their general and categorical support programs to account for differential needs remain. The Institute has begun to examine the impact of P.L. 94-142, the Education for All Handicapped Children Act, is already engaged in a study of pupil weighting systems, is supporting a comparative study of special populations, and is in the midst of a major study of compensatory education. Given the importance of this issue further work will be undertaken that focuses on state categorical programs and their inter-relationship with equalization formulas.

Municipal Overburden - School finance equalization plans that base state contributions on local property wealth often provide little benefit to large cities. Advocates of cities advance the argument that they bear a larger non-educational financial burden than suburban and rural communities, and that special "municipal overburden" provisions should be included in state school finance legislation. The urban problem is further aggravated by large concentrations of educationally disadvantaged children.

Although a number of States have adopted municipal overburden provisions, recent research suggests that municipal overburden may be an incorrect perspective with which to examine the problems of the cities. NIE plans to review and evaluate this research with an eye to suggesting valid and realistic strategies for aiding central cities.

Data Collection, Generation and Quality: The Question of Comparability. A continuing problem for analysts, state legislatures, the Congress and the executive branch is the lack of reliability and comparability in school finance data both across states and across years. This problem not only makes cross-state analyses nearly impossible, it also frustrates federal initiatives that might attempt to provide incentives for greater equalization. Because the task of introducing greater comparability into state accounting practices is important, a broad and serious investigation of the issue is needed. NIE plans to sponsor research in this area that will lay-out the salient issues and describe a range of solutions that, with adequate funds and time, hold the promise of being successfully implemented.

As the first step in this effort, NIE and the Ford Foundation are jointly sponsoring the creation of a "school finance cooperative", to begin the important task of "equity monitoring". Because of major differences between States, in data quality and availability, and substantial differences in definitions, interstate comparisons are very difficult. One solution is common accounting practices, but the national adoption of such a common system still lies well in the future. A "school finance cooperative", created to bring together various school finance data users to attempt to design a comparability approach that will rely on available data, should permit meaningful, interstate comparison. Such an approach will be invaluable to scholars and federal policy makers interested in the question of interstate comparison and equalization efforts.

Education Finance and the Law - The contemporary interest in education finance reform is almost exclusively the result of various legal initiatives over the past decade. Serrano, while the best known of the school finance cases, is only one of a large number. An important analysis task for the short term future is the examination of the legal trends and issues that will affect school finance equalization over the coming decade. NIE has commissioned two major papers on the law in the past year, and plans to support a legal seminar during the current academic year.

The seminar will draw on legal scholars from across the nation, and will identify and analyse the emerging issue of the late seventies and eighties. Of particular concern will be the legal obligations imposed on States and local jurisdictions by federal legislation for the handicapped, which goes well beyond the requirements of earlier federal education legislation. Similarly, questions of equalization of resources in the context of bilingual education, competency based education and sex bias will be part of the seminar's agenda.

Incentives and Disincentives - Several major finance reforms and new program initiatives incorporate features which may produce perverse incentives and disincentives; for example, financing schemes which provide funds based on "type of handicap", or "type of problem", may encourage labeling of children as a means to secure additional funds. Similarly, as the student population declines, various segments of the education system may find themselves competing for the same clientele (e.g., public and private, secondary and post secondary schools competing for the adult education dollar).

These cases raise serious questions about the potential positive and negative effects that result from the explicit and implicit incentives of various programs. For example, competition could result in improved services as schools attempt to attract a scarce resource, students. Conversely, it may be inefficient to have several suppliers competing for the same clients. The Institute will sponsor research designed to examine these issues and to gain a better understanding of how educational institutions tend to behave in response to the introduction of new programs and the funding schemes associated with them.

Cost Benefit Studies - The Institute proposes to launch a modest series of small cost benefit studies, designed to help local managers and decision makers. Although the methodology of input-output analysis is far from perfect, the techniques of small scale cost benefit analysis are reasonably well developed, permitting studies with limited objectives to be performed successfully. The Institute has already supported a small transportation study and an examination of school consolidation, and this year will initiate studies of year-round schools, school/district size, and school related energy problems. Other cost benefit studies will be added as appropriate.

APPENDIX A

Selected NIE School Finance and Organization
Division ActivitiesSCHOOL FINANCE EQUALIZATION PROJECTS

	<u>'75</u>	<u>'76</u>	<u>'77</u>
National Conference of State Legislatures School Finance Technical Assistance and Policy Analysis	\$32,000	\$193,000	\$219,000
OECD/CERI Comparative Financing Practices and Policy Implications at the Primary Level	20,000	121,000	83,000
Education Commission of the States School Finance Information, Dissemination and Policy Studies		103,000	113,000
Intercultural Development Research Associates School Finance Reform and Disadvantaged Children		65,000	10,000
American Federation of Teachers School Finance Education Project		132,000	116,000
Rand Corporation Fiscal Effects of School Finance Reform		191,000	
SRI, International Organizational Effects of School Finance Reform		195,000	
MGT, Inc. Analysis of Pupil Weighting Systems in Education Finance Formulas		55,000	
Stanford University Stanford/Berkeley School Finance and Organization Symposium		67,000	
MGT, Inc. Analysis of the Florida Equalization Finance Program		6,000	

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SCHOOL FINANCE EQUALIZATION PROJECTS (continued)

	<u>'75</u>	<u>'76</u>	<u>'77</u>
Killalea Associates Cost-of-Education Indices			41,000
Peter Keen Development of the California School Finance Simulation			3,000
National Conference of State Legislatures and the Education Commission of the States Alternative Funding Plans for Bureau of Indian Affairs Operated Schools			50,000 ¹
Indian Education Training Inc. Financing the Education of American Indian Children: An Overview			3,000
University of Alaska Financing the Education of Alaskan Natives: An Overview			7,000
Woodrow Wilson International Center for Scholars Equalization & Excellence: A Debate			4,000

RELATED SCHOOL FINANCE AND ORGANIZATION PROJECTS

Center for Community Change Education in Rural America	12,000	60,000	
National Center for Urban Ethnic Affairs Schools & Neighborhood Stability		60,000	13,000
Declining Enrollment Studies		57,000	3,000
High School Study National Survey of High School Principals		16,000	30,000

¹ Represents funds transferred from the Bureau of Indian Affairs

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RELATED SCHOOL FINANCE AND ORGANIZATION PROJECTS (continued)

	<u>'75</u>	<u>'76</u>	<u>'77</u>
Mathematica			
Teacher Mobility		40,000	17,000
National Urban Coalition			
School Site Lump Sum Budgeting		95,000	
California State Department of Education			
Year I of the High School Proficiency			
Examination: A Descriptive Analysis		67,000	
Hudson Institute			
Future Trends in Education Policy			35,000
ASE Policy Center - Rand Corporation			
The Influence of Collective Bargaining			
on Educational Practice			78,000
University of California at Berkeley			
Evaluation of the California High School			
Proficiency Examination: Financial and			
Organizational Repercussions			113,000
Education Research Fellows and Other			
Studies		<u>81,000</u>	<u>39,000</u>
TOTAL	\$64,000	\$1,604,000	\$977,000

APPENDIX 3

Big City Schools: 1970-1975 --
A Profile of Changing Fiscal Pressures

Prepared for The
National Conference of State Legislatures (NCSL)

By

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September 22, 1977

National Conference of State Legislatures
444 North Capitol St. N.W.
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Summary

The financing of large city schools continues to be a major fiscal problem for all levels of government in this country. Large cities are continuing to lose population and city school enrollments are continuing to decline. Yet, the loss of city school children has not offset the increasing concentrations of minority children in large urban school systems. City schools are losing children but gaining minority pupils, especially Spanish-speaking children whose families are concentrating in large cities. Educating America's minorities remains a principal job of large city schools.

While minority pupils continue to concentrate in urban centers, the ability of large city schools to finance their educational needs has diminished. City property tax bases, with the exception of some urban school systems in the South and West, have either declined or not kept pace with inflation. Per pupil tax capacity, especially in the East and Midwest, is not expanding fast enough to meet program demands of regular pupils much less the special needs of high-cost pupils that concentrate in large cities. Cities apparently will require continued fiscal assistance from higher levels of government if they have to raise expenditures for their regular and special needs pupils.

Between 1970 and 1975, however, both state and federal governments increased their education aid to urban schools dramatically. State and federal aid in all but a few cases increased at a rate 2 to 3 times greater than local taxes. Particularly in the East and Midwest this has meant that city schools have been able to increase their current expenditures per pupil

by about \$500 per pupil between 1970 and 1975 with at least half this increase coming from state or federal sources. Without these major infusions of external aid, city schools would almost surely have experienced draconian program reductions between 1970-1975.

The health of large city school finances, however, remains precarious. City tax bases are stagnating or declining. Minority pupils, many of which require high-cost education programs, remain a large and growing proportion of city school enrollment. This mismatch of resources and need means that states and the federal government will have to fashion new school finance policies to prevent fiscal chaos in large city schools. States must continue to enact new basic school finance programs, as many have done since 1971, to channel more monies into cities with decaying tax bases and higher education costs. The federal government must, in turn, fully fund their aid programs for special and compensatory education which are essential to urban children. Moreover, the national government must continue to assess the gains cities have made in the course of state school finance reform and support through legislation and funding, the basic equalized school aid programs around the country that states have employed to address urban school problems.

Urban school finance problems will continue to demand new state and federal school aid policies. Barring their adoption, urban school systems will continue to face severe educational and fiscal problems.

Changing Enrollment Trends in Large City Schools: 1970-1975

City school enrollments and population have continued to decline substantially since 1970. On the average, of the 89 large urban areas surveyed, large city populations declined by 14,000 between 1970 and 1975. The decline was most percipitous in the Northeast and Midwest where city populations declined by an average of 50,000 people during this five year period. Major population losers were New York, Philadelphia, Chicago, and Cleveland while only a few selected Florida, Texas, and California cities gained population. Large cities continue to face considerable pupilation losses as individuals and families move elsewhere to seek better jobs, more adequate housing, and in some cases improved municipal and school services.

The loss of population has been paralleled by major declines in public school enrollments. School populations have declined on the average of 9,500 pupils per large city district with the most dramatic losses occurring in large cities. Indeed, even Southern and Western city school districts have major enrollment losses though their overall populations were growing during 1970-1975. Thus, even when the city population base is stable or growing city schools appear to have a hard time retaining city school populations.

City enrollment declines are predominantly the result of the loss of large numbers of white school children between 1970 and 1975. The proportion of city school enrollment in minority status increased in virtually all the cities surveyed in this study. 1975, 37 of the country's 89 large urban school systems were school districts where school enrollments were more than

50 percent minority. In terms of growth, we find that white school population in large city school systems declined by about 19 percent between 1970 and 1975 while black and Hispanic school populations increased by 5 and 37 percent. In all regions but the West, Hispanic pupil populations increased at a rate greater than black school children. And all regions in the country experienced a major loss of white pupils with the East and the South experiencing 20 percent reductions in white school populations. "White flight" seems to be a national phenomena affecting city schools and not just confined to the older cities of the Northeast and Midwest. (see Tables 1 and 2).

City Tax Bases Continue to Decline

City school tax bases continue to pose problems for urban school finances. Per pupil property values in the 89 largest cities increased at an annual average of 10 percent between 1970 and 1975, a rate generally lower than increases in school prices and costs and increases in overall property values nationwide. The loss of city population base has had a disastrous effect on the ability of most cities to retain the tax base that they need to serve their remaining school populations. The anemic condition of city school property tax bases means that cities will have to continue to seek assistance from higher levels of government to maintain or improve their school spending. (see Table 3).

City School Spending and Intergovernmental Aid: Running Faster to Keep Pace

Though city taxes bases were weakening, city schools managed to

	POPULATION CHANGE 1970-1975 (000)	ENROLLMENT CHANGE 1970-1975	PERCENT MINORITY SCHOOL ENROLLMENT	
			FALL 1970	FALL 1974
NATIONAL AVERAGE	-14	-9,460	.0*	.0*
EAST AVERAGE	-51	-11,756	52.3	55.7
MIDWEST AVERAGE	-53	-12,201	33.6	40.1
SOUTH AVERAGE	15	-7,274	43.7	48.5
WEST AVERAGE	16	-7,190	29.7	33.9

TABLE 1
POPULATION AND SCHOOL ENROLLMENT CHANGES
1970-1975
PRINCIPAL SCHOOL DISTRICTS SERVING
89 LARGEST U.S. CITIES

*= NOT AVAILABLE

SOURCES: 1970 CENSUS OF POPULATION; 1975 P-25 SERIES ON
CURRENT POPULATION; PUBLISHED AND UNPUBLISHED
DATA FROM THE OFFICE OF CIVIL RIGHTS AND THE
NATIONAL CENTER OF EDUCATIONAL STATISTICS
DATA COLLECTED BY DR. SEYMOUR SACKS OF SYRACUSE
UNIVERSITY

Table 1

	POPULATION CHANGE 1970-1975 (000)	ENROLLMENT CHANGE 1970-1975	PERCENT MINORITY SCHOOL ENROLLMENT	
			FALL 1970	FALL 1974
Bridgeport	-13	-779	53.0	61.0
Hartford	-20	17	67.0	73.0
Washington, D.C.	-41	-17,097	96.0	97.0
Baltimore	-53	-24,613	67.0	73.0
Boston	-4	-13,381	35.0	47.0
Springfield	7	-2,579	28.0	38.0
Worcester	-5	-1,437	0.4	14.0
Jersey City	-16	2,078	61.0	69.0
Newark	-42	-765	85.0	89.0
Patterson	-9	1,714	69.0	78.0
Albany	-6	-1,025	34.0	38.0
Buffalo	-55	-12,434	41.0	48.0
New York	-414	-84,104	62.0	66.0
Rochester	-29	-7,396	38.0	50.0
Syracuse	-14	-5,373	25.0	32.0
Philadelphia	-132	-28,665	64.0	68.0
Pittsburgh	-61	-13,041	41.0	43.0
Providence	-9	-2,931	23.0	28.0
EAST AVERAGE	-51	-11,756	52.3	56.2

Table 1

	POPULATION CHANGE 1970-1975 (000)	ENROLLMENT CHANGE 1970-1975	PERCENT MINORITY SCHOOL ENROLLMENT FALL 1970	FALL 1974
Chicago	-264	-60,092	65.0	72.0
Fort Wayne	8	-3,339	16.0	19.0
Gary	-20	-8,170	77.0	81.0
Indianapolis	-29	-23,389	36.0	42.0
Des Moines	-6	-4,914	9.0	11.0
Wichita	-9	-12,545	17.0	22.0
Detroit	-176	-9,411	65.0	72.0
Flint	-19	-801	42.0	51.0
Grand Rapids	-9	3,954	25.0	32.0
Minneapolis	-56	-11,876	13.0	19.0
Saint Paul	-30	-6,469	11.0	11.0
Kansas City	-34	-15,421	50.0	60.0
Saint Louis	-98	-20,619	66.0	70.0
Omaha	24	-3,436	20.0	23.0
Akron	-23	-7,246	27.0	30.0
Cincinnati	-39	-18,630	45.0	51.0
Cleveland	-111	-24,096	59.0	61.0
Columbus	-3	-16,928	27.0	31.0
Dayton	-37	-13,005	41.0	48.0
Toledo	-16	-6,481	30.0*	33.0*
Youngstown	-9	-3,726	.0	.0
Madison	-4	-2,767	3.0	5.0
Milwaukee	-51	-11,217	30.0	38.0
MIDWEST AVERAGE	-53	-12,201	33.5	40.1

Table 1

	POPULATION CHANGE 1970-1975 (000)	ENROLLMENT CHANGE 1970-1975	PERCENT MINORITY SCHOOL ENROLLMENT FALL 1970	FALL 1974
Birmingham	-24	-11,394	55.0	63.0
Mobile	6	-8,336	44.0	46.0
Jacksonville	31	-10,627	29.0	33.0
Miami	30	4,230	46.0	54.0
Tampa	2	12,441	26.0	26.0
Saint Petersburg	122	8,867	17.0	17.0
Atlanta	-60	-23,435	69.0	84.0
Columbus	-7	-9,641	32.0	38.0
Louisville	-36	-9,460	48.0	54.0
Baton Rouge	22	1,542	39.0	40.0
New Orleans	-33	-15,874	71.0	80.0
Shreveport	4	7,486	49.0	52.0
Jackson	14	-10,151	61.0	67.0
Charlotte	40	-6,056	31.0	34.0
Oklahoma City	-1	-18,301	28.0	33.0
Tulsa	1	-10,633	17.0	21.0
Knoxville	9	-3,993	17.0	19.0
Memphis	38	-15,387	52.0	68.0
Nashville	-3	-11,635	25.0	29.0
Austin	50	5,128	36.0	37.0
Corpus Christi	11	-2,822	55.0	61.0
Dallas	-31	-13,112	43.0	55.0
El Paso	64	-467	60.0	63.0
Fort Worth	-35	-5,714	36.0	45.0
Houston	94	-20,940	50.0	59.0
San Antonio	119	-7,551	77.0	83.0
Norfolk	-21	-8,697	46.0	52.0
Richmond	-16	-4,168	64.0	76.0
SOUTH AVERAGE	15	-7,274	43.7	48.5

Table 1

	POPULATION CHANGE 1970-1975 (000)	ENROLLMENT CHANGE 1970-1975	PERCENT MINORITY SCHOOL ENROLLMENT	
			FALL 1970	FALL 1974
Phoenix	84	-537	23.0	29.0
Tucson	34	1,809	35.0	35.0
Anaheim	28	833	10.0	11.0
Fresno	12	3,160	30.0	34.0
Los Angeles	89	-50,665	49.0	59.0
Long Beach	-25	-7,152	16.0	26.0
Sacramento	7	-654	36.0	41.0
San Bernadino	-7	0	35.0	38.0
San Diego	78	-2,234	25.0	27.0
San Francisco	-51	-14,046	63.0	70.0
Oakland	-31	-3,151	71.0	78.0
San Jose	110	3,181	31.0	29.0
Denver	-29	-17,671	39.0	46.0
Honolulu	3	-1,447	.0	.0
Albuquerque	35	1,766	42.0	44.0
Portland	-25	-15,132	12.0	16.0
Salt Lake City	-5	-8,133	11.0	14.0
Seattle	-44	-20,072	20.0	26.0
Spokane	4	-2,432	4.0	6.0
Tacoma	-3	-4,041	14.0	17.0
WEST AVERAGE	16	-7,190	29.7	33.9

% CHANGE IN PUBLIC SCHOOL ENROLLMENT
FALL 1970 - FALL 1974

	TOTAL	BLACK	HISPANIC	NON-MINORITY
NATIONAL AVERAGE	-8.7	4.7	36.9	-19.0
EAST AVERAGE	-6.6	1.8	70.2	-21.0
MIDWEST AVERAGE	-11.4	4.1	19.8	-19.8
SOUTH AVERAGE	-8.5	1.3	52.5	-20.3
WEST AVERAGE	-7.8	12.9	7.8	-14.5

TABLE 2
PERCENT CHANGES IN ENROLLMENT BY MINORITY AND NON-MINORITY STATUS
FALL 1970 - FALL 1974
PRINCIPAL SCHOOL DISTRICTS
SERVING 89 LARGEST U.S. CITIES

*=NOT AVAILABLE

SOURCES: PUBLISHED AND UNPUBLISHED DATA FROM THE U.S. OFFICE
OF CIVIL RIGHTS; DATA COLLECTED BY DR. SEYMOUR SACKS
OF SYRACUSE UNIVERSITY

Table 2

% CHANGE IN PUBLIC SCHOOL ENROLLMENT
FALL 1970 - FALL 1974

	TOTAL	BLACK	HISPANIC	NON-MINORITY
Bridgeport	-3.7	-7	27.1	-18.7
Hartford	-3.7	-3.0	27.0	-22.0
Washington, D.C.	-7.7	-7.1	-2.8	-23.6
Baltimore	-10.0	-2.8	.0*	-26.6
Boston	-9.9	12.0	71.5	-26.8
Springfield	-8.2	7.7	80.4	-20.6
Worcester	-4.8	.0*	.0*	.0*
Jersey City	-2.9	2.4	35.5	-24.2
Newark	-4.0	-3.1	20.3	-26.0
Patterson	4.2	12.9	41.0	-25.6
Albany	-5.9	2.9	131.8	-11.4
Buffalo	-16.2	-6.0	17.6	-25.2
New York	-4.0	2.2	3.7	-15.9
Rochester	-5.3	17.9	68.9	-24.9
Syracuse	-10.1	7.8	145.0	-18.7
Philadelphia	-9.4	-7.2	43.7	-16.8
Pittsburgh	-10.0	-3.9	123.8	-14.0
Providence	-12.1	-1.4	272.2	-17.4
EAST AVERAGE	-6.6	1.8	70.2	-21.0

Table 2

% CHANGE IN PUBLIC SCHOOL ENROLLMENT
FALL 1970 - FALL 1974

	TOTAL	BLACK	HISPANIC	NON-MINORITY
Chicago	-8.2	-1.9	19.9	-27.0
Fort Wayne	-5.8	7.7	33.6	-9.0
Gary	-14.1	-2.1	-27.5	-38.8
Indianapolis	-17.2	-1.0	-5.5	-25.9
Des Moines	-10.1	.8	-49.6	-12.0
Wichita	-16.5	.4	27.9	-21.2
Detroit	-7.2	2.0	14.0	-24.9
Flint	-10.3	8.5	26.0	-24.7
Grand Rapids	-8.3	18.0	18.6	-17.1
Minneapolis	-16.1	18.7	26.2	-22.0
Saint Paul	-9.2	6.0	4.0	-9.0
Kansas City	-11.9	-2.0	.0*	-28.0
Saint Louis	-18.1	-10.6	17.5	-26.8
Omaha	-6.9	1.8	26.7	-10.2
Akron	-12.4	-3.0	20.3	-16.4
Cincinnati	-16.8	7.7	53.2	-25.6
Cleveland	-14.1	-14.4	35.8	-16.1
Columbus	-6.4	6.0	-18.7	-11.0
Dayton	-16.9	-2.9	2.9	-26.7
Toledo	-4.3	6.8	30.0	-9.9*
Youngstown	-15.1	.0*	.0*	.0*
Madison	-9.8	30.1	56.3	-11.4
Milwaukee	-10.5	13.8	23.8	-21.3
MIDWEST AVERAGE	-11.4	4.1	19.8	-19.8

Table 2

CHANGE IN PUBLIC SCHOOL ENROLLMENT
FALL 1970 - FALL 1974

	TOTAL	BLACK	HISPANIC	NON-MINORITY
Birmingham	-15.0	-1.6	.0	-31.5
Mobile	-7.8	-5.3	17.1	-9.8
Jacksonville	-8.4	1.3	.0	-13.6
Miami	1.6	6.0	35.0	-12.6
Tampa	8.4	4.7	9.6	9.0
Saint Petersburg	8.3	5.6	77.2	8.3
Atlanta	-19.2	-6	489.3	-61.0
Columbus	-12.7	1.4	22.9	-20.6
Louisville	-13.7	-2.3	547.6	-23.9
Baton Rouge	5.7	6.4	159.2	3.6
New Orleans	-14.4	-2.7	-20.3	-43.1
Shreveport	-7.0	-2.0	5.4	-12.0
Jackson	-6.3	4.0	-70.0	-21.9
Charlotte	-6.0	3.5	-.9	-10.5
Oklahoma City	-26.2	-8.8	-7.2	-31.5
Tulsa	-12.9	2.7	10.2	-16.8
Knoxville	-10.5	-2.6	-39.0	-12.2
Memphis	-19.4	7.0	39.3	-47.0
Nashville	-14.8	-.5	2.0	-19.5
Austin	6.3	4.8	14.4	3.8
Corpus Christi	-6.3	-5.7	4.7	-18.4
Dallas	-9.2	14.8	31.8	-29.5
El Paso	.7	7.7	7.4	.1
Fort worth	-13.9	5.4	16.2	-26.5
Houston	-10.0	4.0	12.0	-26.0
San Antonio	-11.3	-7.7	-3.8	-34.1
Norfolk	-8.6	2.0	31.0	-18.0
Richmond	-17.8	-2.4	-26.0	-45.5
SOUTH AVERAGE	-8.5	1.3	52.5	-20.3

Table 2

% CHANGE IN PUBLIC SCHOOL ENROLLMENT
FALL 1970 - FALL 1974

	TOTAL	BLACK	HISPANIC	NON-MINORITY
Phoenix	-4.5	30.7	22.1	-7.7
Tucson	-6.7	-3.5	8.4	5.9
Anaheim	2.3	159.5	9.0	1.0
Fresno	-3.9	9.7	10.8	-10.1
Los Angeles	-6.1	-3.7	19.7	-21.8
Long Beach	-10.9	27.2	32.6	-21.5
Sacramento	-12.3	4.2	-7.0	-19.0
San Bernadino	-13.3	-9.9	-4.0	-17.0
San Diego	-4.1	6.0	6.0	-7.0
San Francisco	-14.4	-8.0	-10.0	-31.0
Oakland	-9.2	.2	-12.5	-30.3
San Jose	.1	-1.2	-10.2	3.3
Denver	-18.6	1.2	-6.6	-27.9
Honolulu	-1.8	.0*	.0*	.0*
Albuquerque	.2	12.5	5.9	-4.1
Portland	-16.3	7.4	16.3	-20.2
Salt Lake City	-19.7	-2.7	4.3	-22.3
Seattle	-18.3	3.6	-6.1	-24.4
Spokane	-6.7	10.7	42.0	-8.8
Tacoma	-10.3	2.5	28.1	-13.0
WEST AVERAGE	-7.8	129.0	7.8	-14.5

	% CHANGE IN ASSESSED VALUE/PUPIL			AVG. % CHANGE
	1970-1971	1972-1973	1974-1975	VALUE/PUPIL 1970-1975
NATIONAL AVERAGE	9.2	13.2	10.9	9.9
EAST AVERAGE	.3	3.5	6.0	3.4
MIDWEST AVERAGE	3.0	22.2	4.1	7.8
SOUTH AVERAGE	8.6	13.7	15.5	11.6
WEST AVERAGE	26.1	11.0	22.7	15.9

TABLE 3
PER PUPIL ASSESSED PROPERTY VALUE TRENDS
1970 - 1975
* PRINCIPAL SCHOOL DISTRICTS
SERVING 89 LARGEST U.S. CITIES

* = NOT AVAILABLE

SOURCES: PUBLISHED AND UNPUBLISHED DATA COLLECTED FROM THE U.S.
OFFICE OF CIVIL RIGHTS AND MOODY'S; ALL DATA COLLECTED
HAS BEEN COLLECTED BY DR. SEYMOUR SACKS OF SYRACUSE UNIVERSITY

Table 3

	% CHANGE IN ASSESSED VALUE/PUPIL			AVG. % CHANGE VALUE/PUPIL 1970-1975
	1970-1971	1972-1973	1974-1975	
Bridgport	-1.9	.4	46.8	9.3
Hartford	.2	5.6	.7	3.1
Washington, D.C.	6.6	7.6	.0	.0
Baltimore	1.1	2.2	4.2	3.0
Boston	2.3	3.4	14.7	5.4
Springfield	4.9	4.1	1.8	1.1
Worcester	1.6	6.3	3.2	2.8
Jersey City	-4.1	-9.9	-6.4	-2.4
Newark	-3.6	4.6	-4	-7
Patterson	-3	-4.0	-2.6	4.1
Albany	2.9	1.0	-1.2	2.4
Buffalo	1.5	6.9	1.6	4.1
New York	1.1	5.6	8.8	4.5
Rochester	3.5	1.3	6.7	4.2
Syracuse	2.4	6.3	8.2	5.2
Philadelphia	3.3	6.5	6.6	5.6
Pittsburgh	3.1	2.2	5.5	6.2
Providence	-19.8	4.6	3.3	-3
EAST AVERAGE	.3	3.5	6.0	3.4

Table 3

	% CHANGE IN ASSESSED VALUE/PUPIL			AVG. % CHANGE
	1970-1971	1972-1973	1974-1975	VALUE/PUPIL 1970-1975
Chicago	5.0	-2.6	-8.6	1.7
Fort Wayne	2.2	4.2	7.8	4.8
Gary	3.0	5.1	2.4	3.7
Indianapolis	5.5	6.8	9.6	7.2
Des Moines	7.0	5.0	-1.8	9.5
Wichita	8.3	8.0	7.4	9.0
Detroit	3.8	3.7	-1.1	2.9
Flint	8.6	6.2	-3.1	3.7
Grand Rapids	6.5	3.6	-6.6	.8
Minneapolis	-5.4	223.5	2.3	47.4
Saint Paul	3.8	189.6	1.5	41.1
Kansas City	-5.0	6.1	4.9	6.4
Saint Louis	-3.4	4.5	-2.0	3.3
Omaha	1.9	4.9	12.6	3.3
Akron	2.8	8.4	11.2	7.0
Cincinnati	.5	6.4	11.0	5.7
Cleveland	-1.7	.7	8.5	2.4
Columbus	5.3	8.8	13.0	7.8
Dayton	6.9	3.2	12.1	6.2
Toledo	.8	4.1	2.3	3.3
Youngstown	1.6	.6	2.2	2.7
Madison	11.1	8.6	.0*	.0*
Milwaukee	.3	.7	.0*	.0*
MIDWEST AVERAGE	3.0	22.2	4.1	7.8

Table 3

	% CHANGE IN ASSESSED VALUE/PUPIL			AVG. % CHANGE VALUE/PUPIL 1970-1975
	1970-1971	1972-1973	1974-1975	
Birmingham	12.3	9.2	9.2	4.1
Mobile	6.3	-3.7	10.2	5.1
Jacksonville	9.8	18.5	38.1	19.4
Miami	13.4	17.6	10.3	15.9
Tampa	6.7	16.2	38.3	1.0
Saint Petersburg	.2	125.4	10.5	29.0
Atlanta	6.7	17.7	-4.3	12.0
Columbus	-2.7	24.8	19.5	14.0
Louisville	.0	.0	.0	.0
Baton Rouge	7.8	.3	3.5	4.4
New Orleans	3.4	8.3	7.0	6.0
Shreveport	10.6	5.8	3.7	7.4
Jackson	43.0	2.4	18.5	15.8
Charlotte	11.7	10.5	86.7	31.5
Oklahoma City	5.7	22.3	8.6	11.2
Tulsa	6.6	7.3	8.2	8.4
Knoxville	15.2	-15.8	7.8	3.0
Memphis	-9.8	-19.0	9.6	2.7
Nashville	8.4	9.2	12.5	10.0
Austin	10.6	12.1	24.4	13.4
Corpus Christi	3.6	10.8	14.3	9.7
Dallas	31.7	13.5	9.0	12.7
El Paso	7.3	24.5	5.0	8.3
Fort Worth	7.7	12.0	2.7	8.1
Houston	9.3	8.9	17.2	10.4
San Antonio	3.2	9.5	29.7	15.5
Norfolk	6.6	6.4	5.5	7.8
Richmond	-2.5	16.0	12.9	10.9
SOUTH AVERAGE	8.6	13.7	15.5	11.6

Table 3

	% CHANGE IN ASSESSED VALUE/PUPIL			AVG. % CHANGE VALUE/PUPIL 1970-1975
	1970-1971	1972-1973	1974-1975	
Phoenix	7.2	18.4	11.9	13.3
Tucson	-1.4	14.5	19.0	14.7
Anaheim	17.3	10.3	22.8	11.9
Fresno	-7	12.7	3.9	8.2
Los Angeles	8.7	6.6	5.7	6.1
Long Beach	1.0	6.8	7.3	5.2
Sacramento	8.5	-2.6	.8	6.1
San Bernadino	.0	.0	.0	.0
San Diego	9.5	-.5	-1.2	7.5
San Francisco	1.2	11.3	-2.8	6.8
Oakland	1.2	11.3	-2.8	5.8
San Jose	11.3	6.8	-3.6	3.1
Denver	5.2	9.1	14.2	10.6
Honolulu	12.4	14.3	16.0	12.7
Albuquerque	-.7	4.9	8.1	6.4
Portland	12.6	15.7	8.9	14.3
Salt Lake City	4.9	7.3	13.4	9.1
Seattle	149.7	23.7	108.4	58.5
Spokane	111.1	19.0	96.4	47.5
Tacoma	123.8	24.8	97.8	54.7
WEST AVERAGE	26.1	11.0	22.7	15.9

Table 3

	% CHANGE IN ASSESSED VALUE/PUPIL			AVG. % CHANGE VALUE/PUPIL 1970-1975
	1970-1971	1972-1973	1974-1975	
Phoenix	7.2	18.4	11.9	13.3
Tucson	-1.4	14.5	19.0	14.7
Anaheim	17.3	10.3	22.8	11.9
Fresno	-7.7	12.7	3.9	8.2
Los Angeles	9.7	6.6	5.7	6.1
Long Beach	1.0	6.8	7.3	5.2
Sacramento	8.5	-2.6	.8	6.1
San Bernadino	.0	.0	.0	.0
San Diego	9.5	-5.5	-1.2	7.5
San Francisco	1.2	11.3	-2.8	6.8
Oakland	1.2	11.3	-2.8	5.8
San Jose	11.3	6.8	-3.6	3.1
Denver	5.2	9.1	14.2	10.6
Honolulu	12.4	14.3	16.0	12.7
Albuquerque	-7.7	4.9	8.1	6.4
Portland	12.6	15.7	8.9	14.3
Salt Lake City	4.9	7.3	13.4	9.1
Seattle	149.7	23.7	108.4	58.5
Spokane	111.1	19.0	96.4	47.5
Tacoma	123.8	24.8	97.8	54.7
WEST AVERAGE	26.1	11.0	22.7	15.9

increase their per pupil expenditure by an average of over \$500 per pupil between 1970 and 1975. This represented a 60-70 percent increase in per pupil spending over the 1970 fiscal year. Indeed cities such as Boston, New York, Minneapolis and Saint Paul, Austin, Phoenix, Denver, and Portland were able to increase their per pupil spending by nearly 100 percent during this time period. (see Table 4).

The major reason for this increased expenditure, however, was not higher local taxation. For while per pupil spending in large cities increased by over \$500 per pupil during 1970-1975, per pupil school taxes increased by only about \$224 per pupil. Thus, nearly 55 percent of the increase in large city school spending was offset by state and federal education aid during this time. Both levels of government, and particularly states that were able to reform their basic school funding programs, moved dramatically to alleviate mounting property tax pressures in large cities. The major infusion of state aid caused the city share of its educational finance program to drop dramatically between 1970 and 1975. Thus, while city school taxes accounted for 60 percent of all state-local school revenue in the 89 largest school districts in 1970, by 1975 this percentage had dropped to 55 percent. (see Table 5 and 6).

The major increase in intergovernmental aid is reflected in the fact that while local school taxes per pupil increased by about 49 percent between 1970 and 1975, state aid per pupil increased by an average of 102 percent, and federal aid increased by 176 percent. State and federal aid was relieving the local property tax in large city schools. Moreover, the

	CURRENT EXPENDITURES PER PUPIL			\$ CHANGE IN EXP. / PUPIL	
	1970	1973	1975	1973-1975	1970-1975
NATIONAL AVERAGE	\$747	\$1,005	\$1,264	\$258	\$514
EAST AVERAGE	\$953	\$1,332	\$1,607	\$379	\$654
MIDWEST AVERAGE	\$794	\$1,055	\$1,280	\$261	\$486
SOUTH AVERAGE	\$556	\$766	\$980	\$210	\$422
WEST AVERAGE	\$777	\$1,054	\$1,324	\$277	\$547

TABLE 4
CURRENT EXPENDITURE TRENDS
1970 - 1975
PRINCIPAL SCHOOL DISTRICTS
SERVING 89 LARGEST U.S. CITIES

*=NOT AVAILABLE

SOURCES: PUBLISHED AND UNPUBLISHED DATA COLLECTED BY THE NATIONAL
CENTER FOR EDUCATIONAL STATISTICS AND THE GOVERNMENTS
DIVISION OF THE U.S. BUREAU OF THE CENSUS; ALL DATA COLLECTED
BY DR. SEYMOUR SACKS OF SYRACUSE UNIVERSITY

Table 4

	CURRENT EXPENDITURES PER PUPIL			\$ CHANGE IN EXP. / PUPIL	
	1970	1973	1975	1973-1975	1970-1975
Bridgeport	\$704	\$960	\$1,181	\$221	\$477
Hartford	\$1,120	\$1,473	\$1,622	\$150	\$502
Washington, D.C.	\$908	\$1,232	\$1,552	\$320	\$644
Baltimore	\$755	\$945	\$1,122	\$177	\$367
Boston	\$892	\$1,336	\$2,125	\$789	\$1,233
Springfield	\$813	\$0	\$1,416	\$0	\$603
Worcester	\$898	\$1,163	\$1,549	\$386	\$651
Jersey City	\$748	\$1,098	\$1,175	\$77	\$427
Newark	\$860	\$1,342	\$1,392	\$50	\$532
Patterson	\$712	\$969	\$964	-\$5	\$252
Albany	\$1,218	\$0	\$2,083	\$0	\$865
Buffalo	\$1,044	\$1,845	\$1,832	-\$13	\$788
New York	\$1,155	\$1,586	\$2,329	\$743	\$1,174
Rochester	\$1,247	\$1,757	\$2,093	\$336	\$846
Syracuse	\$1,081	\$1,394	\$1,707	\$313	\$626
Philadelphia	\$989	\$1,294	\$1,607	\$313	\$618
Pittsburgh	\$933	\$1,438	\$1,542	\$104	\$609
Providence	\$1,073	\$0	\$1,652	\$0	\$559
EAST AVERAGE	\$953	\$1,332	\$1,607	\$264	\$654

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Table 4

	CURRENT EXPENDITURES PER PUPIL			% CHANGE IN EXP. / PUPIL	
	1970	1973	1975	1973-1975	1970-1975
Chicago	\$894	\$1,203	\$1,537	\$334	\$643
Fort Wayne	\$694	\$894	\$1,069	\$175	\$375
Gary	\$826	\$1,011	\$1,189	\$178	\$363
Indianapolis	\$642	\$869	\$1,043	\$174	\$401
Des Moines	\$792	\$1,016	\$1,192	\$166	\$390
Wichita	\$674	\$859	\$1,192	\$323	\$508
Detroit	\$889	\$1,110	\$1,255	\$145	\$366
Flint	\$1,062	\$1,238	\$1,312	\$74	\$250
Grand Rapids	\$879	\$1,167	\$1,293	\$126	\$414
Minneapolis	\$883	\$1,432	\$1,720	\$288	\$837
Saint Paul	\$828	\$1,343	\$1,649	\$306	\$821
Kansas City	\$763	\$962	\$1,383	\$421	\$620
Saint Louis	\$761	\$942	\$1,167	\$225	\$406
Omaha	\$570	\$788	\$968	\$180	\$398
Akron	\$724	\$1,004	\$1,113	\$109	\$389
Cincinnati	\$776	\$988	\$1,292	\$304	\$516
Cleveland	\$882	\$1,055	\$1,325	\$270	\$443
Columbus	\$723	\$933	\$1,119	\$186	\$396
Dayton	\$905	\$1,212	\$1,370	\$158	\$465
Toledo	\$731	\$998	\$1,091	\$93	\$360
Youngstown	\$780	\$0	\$1,245	\$0	\$465
Madison	\$806	\$1,132	\$1,453	\$321	\$647
Milwaukee	\$781	\$1,051	\$1,493	\$442	\$712
MIDWEST AVERAGE	\$794	\$1,054	\$1,280	\$210	\$486

Table 4
CURRENT EXPENDITURES PER PUPIL \$ CHANGE IN EXP. / PUPIL

	1970	1973	1975	1973-1975	1970-1975
--	------	------	------	-----------	-----------

Birmingham	\$393	\$598	\$673	\$75	\$280
Mobile	\$366	\$490	\$642	\$152	\$276
Jacksonville	\$577	\$784	\$1,110	\$326	\$533
Miami	\$754	\$895	\$1,281	\$386	\$527
Tampa	\$601	\$841	\$1,092	\$251	\$491
Saint Petersburg	\$681	\$806	\$1,179	\$373	\$498
Atlanta	\$677	\$995	\$1,290	\$295	\$613
Columbus	\$500	\$1,063	\$0	\$0	\$0
Louisville	\$669	\$754	\$1,284	\$530	\$615
Baton Rouge	\$548	\$751	\$898	\$147	\$350
New Orleans	\$557	\$760	\$927	\$167	\$370
Shreveport	\$558	\$785	\$884	\$99	\$326
Jackson	\$494	\$806	\$986	\$180	\$492
Charlotte	\$620	\$837	\$1,149	\$312	\$529
Oklahoma City	\$505	\$688	\$839	\$151	\$334
Tulsa	\$567	\$711	\$846	\$135	\$279
Knoxville	\$549	\$721	\$909	\$188	\$360
Memphis	\$523	\$733	\$988	\$255	\$465
Nashville	\$542	\$780	\$1,053	\$273	\$471
Austin	\$522	\$733	\$1,046	\$313	\$524
Corpus Christi	\$476	\$629	\$814	\$185	\$338
Dallas	\$525	\$781	\$940	\$159	\$415
El Paso	\$505	\$647	\$811	\$164	\$306
Fort Worth	\$509	\$688	\$861	\$173	\$352
Houston	\$500	\$657	\$846	\$189	\$346
San Antonio	\$457	\$609	\$807	\$198	\$350
Norfolk	\$667	\$926	\$1,027	\$101	\$360
Richmond	\$689	\$985	\$1,287	\$302	\$598
SOUTH AVERAGE	\$556	\$766	\$980	\$210	\$422

Table 4

	CURRENT EXPENDITURES PER PUPIL			\$ CHANGE IN EXP. / PUPIL	
	1970	1973	1975	1973-1975	1970-1975
Phoenix	\$609	\$971	\$1,297	\$326	\$688
Tucson	\$680	\$0	\$1,034	\$0	\$354
Anaheim	\$742	\$0	\$1,533	\$0	\$791
Fresno	\$724	\$880	\$1,064	\$184	\$340
Los Angeles	\$743	\$951	\$1,230	\$279	\$487
Long Beach	\$165	\$1,041	\$1,286	\$245	\$521
Sacramento	\$702	\$871	\$1,091	\$220	\$389
San Bernadino	\$0	\$0	\$0	\$0	\$0
San Diego	\$739	\$948	\$1,152	\$204	\$413
San Francisco	\$1,332	\$1,574	\$1,919	\$345	\$587
Oakland	\$877	\$1,219	\$1,632	\$412	\$755
San Jose	\$807	\$1,146	\$1,360	\$213	\$553
Denver	\$763	\$1,103	\$1,561	\$438	\$798
Honolulu	\$748	\$1,123	\$1,107	\$64	\$439
Albuquerque	\$537	\$666	\$891	\$225	\$354
Portland	\$767	\$1,162	\$1,552	\$390	\$785
Salt Lake City	\$588	\$761	\$1,032	\$271	\$444
Seattle	\$904	\$1,338	\$1,646	\$308	\$742
Spokane	\$795	\$875	\$1,099	\$224	\$304
Tacoma	\$944	\$1,294	\$1,590	\$276	\$646
WEST AVERAGE	\$777	\$1,054	\$1,324	\$277	\$547

	LOCAL SCHOOL TAXES/PUPIL		\$ CHANGE IN
	1970	1975	LOCAL TAX / PUPIL 1970-1975
NATIONAL AVERAGE	\$467	\$691	\$224
EAST AVERAGE	\$594	\$915	\$321
MIDWEST AVERAGE	\$544	\$736	\$192
SOUTH AVERAGE	\$290	\$424	\$184
WEST AVERAGE	\$510	\$761	\$251

TABLE 5
LOCAL SCHOOL TAX TRENDS
1970 - 1975
PRINCIPAL SCHOOL DISTRICTS
SERVING 89 LARGEST U.S. CITIES

* = NOT AVAILABLE

SOURCES: SEE TABLE 4

Table 5

	LOCAL SCHOOL TAXES/PUPIL		\$ CHANGE IN LOCAL TAX / PUPIL 1970-1975
	1970	1975	
Bridgeport	\$341	\$735	\$394
Hartford	\$727	\$1,367	\$640
Washington, D.C.	\$839	\$1,139	\$300
Baltimore	\$443	\$567	\$124
Boston	\$675	\$1,124	\$449
Springfield	\$568	\$898	\$330
Worcester	\$766	\$1,165	\$399
Jersey City	\$491	\$652	\$161
Newark	\$525	\$555	\$30
Patterson	\$476	\$511	\$35
Albany	\$802	\$1,538	\$736
Buffalo	\$359	\$639	\$280
New York	\$703	\$1,524	\$821
Rochester	\$716	\$1,010	\$294
Syracuse	\$508	\$913	\$405
Philadelphia	\$516	\$535	\$19
Pittsburgh	\$642	\$462	-\$180
Providence	\$661	\$1,128	\$467
EAST AVERAGE	\$594	\$915	\$321

Table 5

	LOCAL SCHOOL TAXES/PUPIL		\$ CHANGE IN LOCAL TAX / PUPIL 1970-1975
	1970	1975	
Chicago	\$605	\$761	\$156
Fort Wayne	\$566	\$649	\$83
Gary	\$370	\$523	\$153
Indianapolis	\$401	\$416	\$15
Des Moines	\$574	\$674	\$100
Wichita	\$389	\$709	\$320
Detroit	\$443	\$623	\$180
Flint	\$642	\$768	\$126
Grand Rapids	\$492	\$738	\$246
Minneapolis	\$643	\$934	\$291
Saint Paul	\$458	\$751	\$293
Kansas City	\$544	\$715	\$171
Saint Louis	\$477	\$603	\$126
Omaha	\$434	\$797	\$363
Akron	\$581	\$757	\$176
Cincinnati	\$540	\$781	\$241
Cleveland	\$650	\$818	\$168
Columbus	\$573	\$706	\$133
Dayton	\$601	\$796	\$195
Toledo	\$549	\$654	\$105
Youngstown	\$527	\$752	\$225
Madison	\$709	\$946	\$237
Milwaukee	\$740	\$1,053	\$313
MIDWEST AVERAGE	\$544	\$736	\$192

Table 5

	LOCAL SCHOOL TAXES/PUPIL		\$ CHANGE IN LOCAL TAX / PUPIL 1970-1975
	1970	1975	
Birmingham	\$141	\$109	-\$32
Mobile	\$110	\$150	\$40
Jacksonville	\$170	\$287	\$117
Miami	\$309	\$474	\$165
Tampa	\$213	\$253	\$40
Saint Petersburg	\$300	\$464	\$164
Atlanta	\$422	\$877	\$455
Columbus	\$184	\$364	\$180
Louisville	\$343	\$410	\$67
Baton Rouge	\$322	\$260	-\$62
New Orleans	\$250	\$164	-\$86
Shreveport	\$319	\$236	-\$83
Jackson	\$290	\$517	\$227
Charlotte	\$289	\$497	\$208
Oklahoma City	\$204	\$459	\$255
Tulsa	\$452	\$524	\$72
Knoxville	\$284	\$855	\$571
Memphis	\$279	\$792	\$513
Nashville	\$346	\$450	\$104
Austin	\$292	\$615	\$323
Corpus Christi	\$228	\$338	\$110
Dallas	\$378	\$657	\$279
El Paso	\$173	\$285	\$112
Fort Worth	\$278	\$388	\$110
Houston	\$317	\$518	\$201
San Antonio	\$169	\$292	\$123
Norfolk	\$369	\$661	\$292
Richmond	\$691	\$1,046	\$355
SOUTH AVERAGE	\$290	\$474	\$130

Table 5

	LOCAL SCHOOL TAXES/PUPIL		\$ CHANGE IN LOCAL TAX / PUPIL 1970-1975
	1970	1975	
Phoenix	\$412	\$881	\$469
Tucson	\$328	\$487	\$159
Anaheim	\$431	\$674	\$243
Fresno	\$325	\$444	\$119
Los Angeles	\$616	\$804	\$198
Long Beach	\$575	\$909	\$334
Sacramento	\$405	\$487	\$82
San Bernadino	\$410	\$456	\$46
San Diego	\$396	\$680	\$284
San Francisco	\$966	\$1,356	\$390
Oakland	\$654	\$998	\$344
San Jose	\$555	\$878	\$323
Denver	\$704	\$1,115	\$411
Honolulu	\$1,364	\$1,225	-\$139
Albuquerque	\$86	\$191	\$105
Portland	\$416	\$995	\$579
Salt Lake City	\$410	\$643	\$233
Seattle	\$531	\$943	\$412
Spokane	\$316	\$400	\$84
Tacoma	\$306	\$661	\$355
WEST AVERAGE	\$510	\$761	\$251

TABLE 6
LOCAL SCHOOL TAX AND STATE AID TRENDS
1970-1975
PRINCIPAL SCHOOL DISTRICTS
SERVING 89 LARGEST U.S. CITIES

* = NOT AVAILABLE

SOURCES: SEE TABLE 4

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LOCAL TAX CHARACTERISTICS OF URBAN SCHOOL DISTRICTS

CITY	1970			1975		
	LOCAL SCHOOL TAXES	STATE AID	RATIO OF LOCAL TO LOCAL + STATE	LOCAL SCHOOL TAXES	STATE AID	RATIO OF LOCAL TO LOCAL + STATE
BIRMINGHAM	9111528.	16531984.	.36	5824393.	23699164.	.20
MOBILE	7966403.	18444208.	.30	9641468.	27662528.	.26
PHOENIX	11249262.	12061584.	.48	23151200.	16895236.	.58
TUCSON	18225836.	17257068.	.51	29490212.	42253480.	.41
ANAHEIM GARDEN GROVE SANTA	NA	NA	.00	NA	NA	.00
FRESNO	18811236.	21562572.	.47	27117792.	39142320.	.41
LOS ANGELES LONG BEACH	NA	NA	.00	NA	NA	.00
SACRAMENTO	22169224.	17677996.	.56	26303352.	32569796.	.45
SAN BERNARDINO RIVERSIDE ON	15287750.	21378492.	.42	15212030.	24963000.	.38
SAN DIEGO	53830328.	42116960.	.56	90977232.	75845408.	.55
SAN FRANCISCO OAKLAND	NA	NA	.00	NA	NA	.00
SAN JOSE	20761692.	9672678.	.68	35635824.	20980932.	.63
DENVER	68044384.	13576944.	.83	87952720.	37709320.	.70
BRIDGEPORT	8538404.	7870408.	.52	17843064.	9571254.	.65
HARTFORD	20853776.	8035183.	.72	39230736.	11437044.	.77
WASHINGTON	123916000.	NA	.00	148690240.	NA	.00
JACKSONVILLE	20590716.	50825200.	.29	31740384.	85304960.	.27
MIAMI	74244576.	103731232.	.42	115796128.	186602688.	.38
TAMPA ST. PETERSBURG	NA	NA	.00	NA	NA	.00
ATLANTA	45990928.	25006516.	.65	70008832.	32324260.	.68
COLUMBUS GA	7856666.	11880102.	.40	12021294.	14747444.	.45
HONOLULU	NA	108265344.	.00	NA	218025984.	.00
CHICAGO	328534976.	178349024.	.65	387369024.	442681024.	.47
FORT WAYNE	24117368.	9245276.	.72	25477248.	19846692.	.56
GARY HAMMOND EAST CHICAGO	NA	NA	.00	NA	NA	.00
INDIANAPOLIS	43273320.	26067348.	.62	35210088.	46596656.	.43
DES MOINES	25696352.	12624796.	.67	27711888.	24454128.	.53
WICHITA	24281872.	16625134.	.59	30909712.	30817768.	.50
LOUISVILLE	18044908.	15909832.	.53	17645832.	17162424.	.51
BATON ROUGE	20945940.	23945292.	.47	17309320.	40880632.	.30
NEW ORLEANS	27303620.	34613320.	.44	15297228.	49852600.	.23
SHREVEPORT	19291168.	20660808.	.47	11745046.	28867468.	.29
BALTIMORE	84859604.	35378152.	.71	97809296.	120898608.	.45
BOSTON	63461528.	24670956.	.72	103404320.	105570512.	.49

LOCAL TAX CHARACTERISTICS OF URBAN SCHOOL DISTRICTS

CITY	1970			1975		
	LOCAL SCHOOL TAXES	STATE AID	RATIO OF LOCAL TO LOCAL + STATE	LOCAL SCHOOL TAXES	STATE AID	RATIO OF LOCAL TO LOCAL + STATE
SPRINGFIELD CHICOPEE HOLYO	17620844.	7659476.	.70	26810100.	18949620.	.59
WORCESTER	22479540.	7912094.	.74	32985356.	14166162.	.70
DETROIT	119754352.	110263472.	.52	162478592.	157765024.	.51
FLINT	27719608.	23035792.	.55	32544472.	18569108.	.64
GRAND RAPIDS	15915108.	13429294.	.54	24643284.	19796324.	.55
MINNEAPOLIS ST PAUL	NA	NA	.00	NA	NA	.00
JACKSON	10856244.	9219828.	.54	14108160.	11674280.	.55
KANSAS CITY	35594368.	15237952.	.70	41174552.	17119916.	.71
ST. LOUIS	48435448.	24348300.	.67	49308984.	35138424.	.58
OMAHA	26496968.	8512064.	.76	45983896.	17559020.	.72
JERSEY CITY	18331000.	7767387.	.70	24344992.	28686896.	.46
NEWARK	39977576.	23618996.	.63	41232520.	90345376.	.31
PATRICKSON CLIFTON PASSAIC	12322224.	6199419.	.67	14162690.	20524116.	.41
ALBUQUERQUE	6941080.	34673400.	.17	15969716.	62153352.	.20
ALBANY SCHENECTADY TROY	NA	NA	.00	NA	NA	.00
BUFFALO	25395584.	42929376.	.37	37135560.	59190840.	.39
NEW YORK	783384112.	567017216.	.58	1669224960.	794194560.	.68
ROCHESTER	31334836.	19024892.	.64	42788768.	26687120.	.62
SYRACUSE	15189808.	15418462.	.50	23959488.	21135288.	.53
CHARLOTTE	23831132.	30646528.	.44	38023648.	51548816.	.42
AKRON	32804016.	8051222.	.80	37270048.	22108532.	.63
CINCINNATI	45071552.	15466482.	.74	52860152.	30290584.	.64
CLEVELAND	95658720.	27794476.	.77	104495296.	58182112.	.64
COLUMBUS O	61972552.	20774252.	.75	67659600.	38371712.	.64
DAYTON	34087744.	9811782.	.78	39148736.	16117288.	.71
TOLEDO	33960640.	11117446.	.75	37435576.	25509096.	.59
YOUNGSTOWN WARREN	13471518.	5165525.	.72	16066280.	12373202.	.56
OKLAHOMA CITY	14126516.	12449114.	.53	23386124.	16429990.	.59
TULSA	34430776.	11392164.	.75	34371824.	19045484.	.64
PORTLAND	30614820.	9434120.	.76	58198440.	24602432.	.70
PHILADELPHIA	132209312.	139566464.	.49	141033312.	218860800.	.39
PITTSBURGH	46536520.	24789248.	.65	29803096.	44276680.	.40
PROVIDENCE PAWTUCKET WARWIC	46536520.	24789248.	.65	NA	NA	.00
KNOXVILLE	10249336.	9065766.	.53	15528526.	12010110.	.56
MEMPHIS	36713976.	32558592.	.53	63945704.	44297928.	.59
NASHVILLE DAVIDSON	31914192.	21502780.	.60	31003844.	30238956.	.51

LOCAL TAX CHARACTERISTICS OF URBAN SCHOOL DISTRICTS

CITY	1970			1975		
	LOCAL SCHOOL TAXES	STATE AID	RATIO OF LOCAL TO LOCAL + STATE	LOCAL SCHOOL TAXES	STATE AID	RATIO OF LOCAL TO LOCAL + STATE
AUSTIN	15186380.	14846960.	.51	35479040.	27242168.	.57
CORPUS CHRISTI	10292700.	11683138.	.47	14359926.	20842048.	.41
DALLAS	60854040.	30024808.	.67	97093472.	47660368.	.67
EL PASO	10405302.	17358300.	.37	16995656.	29392148.	.37
FORT WORTH	23378320.	19904424.	.54	30382808.	31996104.	.49
HOUSTON	71475232.	50699184.	.59	105987584.	77412944.	.58
SAN ANTONIO	12631780.	19571724.	.39	19595368.	32769028.	.38
SALT LAKE CITY	14160700.	8984350.	.61	17704868.	11644894.	.60
MORFOLK PORTSMOUTH	NA	NA	.00	NA	NA	.00
RICHMOND	29535056.	8104572.	.78	40333544.	11617404.	.78
SEATTLE EVERETT	NA	NA	.00	NA	NA	.00
SPOKANE	11293360.	16787844.	.40	13087146.	22447552.	.37
TACOMA	11193696.	20075464.	.36	21546816.	27524140.	.44
MADISON	23304800.	3456887.	.87	29313760.	14236402.	.67
MILWAUKEE	91514512.	31701864.	.74	125111776.	65621232.	.66
ANAHEIM	15759712.	11592964.	.58	18338728.	22007896.	.45
LOS ANGELES	402812160.	187629824.	.68	526062464.	362281984.	.59
LONG BEACH	48034080.	20335208.	.70	54336208.	23008008.	.70
SAN FRANCISCO	85205216.	23951688.	.78	95728336.	37159472.	.72
OAKLAND	41945696.	17107616.	.71	57980104.	33471032.	.63

LOCAL TAX CHARACTERISTICS OF HIGHER SCHOOL DISTRICTS

CITY	1970			1975		
	LOCAL SCHOOL TAXES	STATE AID	RATIO OF LOCAL TO LOCAL + STATE	LOCAL SCHOOL TAXES	STATE AID	RATIO OF LOCAL TO LOCAL + STATE
TAMPA	21518708.	45704424.	.32	28764612.	94692784.	.23
ST PETERSBURG	24474518.	40134656.	.38	41833312.	74341376.	.36
GARY	17414644.	12578414.	.58	20316712.	20954640.	.49
MINNEAPOLIS	42842464.	15671278.	.73	50901528.	36382880.	.58
ST PAUL	22215744.	16068768.	.58	31529468.	31846536.	.50
ALBANY	9029628.	4865736.	.65	15734210.	5191649.	.75
PROVIDENCE	16429528.	6840848.	.71	24146040.	10060556.	.71
NORFOLK	20677632.	12225316.	.63	31275536.	15398760.	.67
SEATTLE	46590264.	31537360.	.60	63791248.	41789352.	.60
NATIONAL MEAN	50117461.	33569007.	.60	72107362.	59007768.	.55

increase in local school taxes per pupil (49 percent) was considerably less than the increase in property tax per pupil (69 percent) during the same period. Thus, effective school taxes were dropping in large urban centers through 1975. The flagging fiscal capacity of urban centers, however, may mean that federal and state governments will have to maintain high levels of aid to large urban centers. (see Table 7).

Urban School Finances: Where do we go Next?

Urban schools will continue to require high levels of state and federal aid to meet the needs of their high-cost school populations in the years ahead. To a great extent, state and federal governments have met the challenge of aiding urban schools between 1970 and 1975. States, through basic aid reforms which recognize the increasing concentrations of disadvantaged children in cities and the declining fiscal capacity of urban centers have moved to direct more school aid to large cities. New school finance programs in Minnesota, Illinois, and Michigan are prime examples of state efforts to offset large city school finance burdens. The federal government, primarily through its Title I compensatory education program, has also directed considerable sums for large city school programs. However, both levels of government will have to sustain these fiscal commitments to prevent new urban school finance crises from occurring.

There are well defined school aid strategies for relieving the fiscal burdens of urban centers. Both state and federal governments, however, will have to better coordinate their school aid programs if they are to obtain

	% CHANGES FROM 1970 TO 1975				VALUATION PER PUPIL
	CURRENT EXPENDITURE PER PUPIL	SCHOOL TAXES PER PUPIL	STATE AID PER PUPIL	FEDERAL AID PER PUPIL	
NATIONAL AVERAGE	69.47	48.86	101.72	176.00	69.35
EAST AVERAGE	68.06	52.42	127.03	174.47	17.82
MIDWEST AVERAGE	61.91	36.50	125.96	202.59	50.86
SOUTH AVERAGE	75.45	49.28	69.96	204.70	73.21
WEST AVERAGE	71.47	59.25	96.54	106.67	132.44

TABLE 7
GROWTH PATTERNS IN KEY SCHOOL FINANCE VARIABLES
1970 - 1975
PRINCIPAL SCHOOL DISTRICTS
SERVING 89 LARGEST U.S. CITIES

*=NOT AVAILABLE

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Table 7

	CURRENT EXPENDITURE PER PUPIL	% CHANGES FROM 1970 TO 1975 SCHOOL TAXES PER PUPIL	STATE AID PER PUPIL	FEDERAL AID PER PUPIL	VALUATION PER PUPIL
Bridgeport	67.75	115.69	25.52	191.37	46.64
Hartford	44.82	88.01	42.26	286.14	16.04
Washington, D.C.	70.92	35.71	.00	360.38	.00
Baltimore	49.61	28.06	279.69	486.76	16.11
Boston	138.23	66.51	337.31	166.07	29.32
Springfield	74.17	58.23	157.28	143.37	4.79
Worcester	72.49	52.04	85.51	62.04	14.56
Jersey City	57.08	35.89	269.57	191.54	-11.66
Newark	61.86	5.55	291.48	166.34	-3.45
Patterson	35.39	7.27	209.00	185.71	18.72
Albany	71.02	91.72	17.39	67.49	12.28
Buffalo	75.48	78.00	67.84	126.58	21.88
New York	101.64	116.78	42.49	175.98	24.45
Rochester	67.84	40.97	54.06	133.19	22.85
Syracuse	57.90	79.80	56.25	85.40	28.83
Philadelphia	62.49	3.59	52.28	132.04	30.95
Pittsburgh	65.27	-28.02	100.75	74.44	34.81
Providence	52.10	70.75	70.87	100.74	-4.11
EAST AVERAGE	68.06	52.42	127.03	174.47	17.82

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Table 7

	CURRENT EXPENDITURE PER PUPIL	% CHANGES FROM 1970 TO 1975 SCHOOL TAXES PER PUPIL	STATE AID PER PUPIL	FEDERAL AID PER PUPIL	VALUATION PER PUPIL
Chicago	71.92	25.60	164.41	160.77	7.22
Fort Wayne	54.03	14.72	133.13	247.00	25.31
Gary	43.94	41.20	101.64	406.47	19.78
Indianapolis	62.46	3.89	128.23	194.76	41.42
Des Moines	49.24	17.35	110.79	136.36	55.49
Wichita	75.37	82.29	165.44	190.01	53.33
Detroit	41.17	40.57	48.24	102.95	15.07
Flint	23.54	19.63	-17.86	227.08	19.73
Grand Rapids	47.10	49.97	42.78	95.69	3.75
Minneapolis	94.79	45.19	183.71	235.18	267.39
Saint Paul	99.15	63.80	128.75	173.26	237.04
Kansas City	81.26	31.32	27.55	335.33	34.72
Saint Louis	53.35	26.50	79.33	200.01	16.77
Omaha	69.82	83.61	118.25	597.52	16.35
Akron	53.73	30.32	215.30	171.89	39.79
Cincinnati	66.49	44.62	141.51	152.48	31.84
Cleveland	50.23	25.74	140.96	240.83	12.13
Columbus	54.77	23.20	108.43	105.38	45.27
Dayton	51.38	32.37	89.33	166.66	34.95
Toledo	47.25	19.27	148.27	136.35	17.22
Youngstown	59.61	42.69	186.61	147.17	13.97
Madison	80.27	33.53	33.28	157.83	.00*
Milwaukee	91.16	42.26	115.40	78.68	161.28
MIDWEST AVERAGE	61.91	36.50	125.96	202.59	50.86

Table 7
% CHANGES FROM 1970 TO 1975

	CURRENT EXPENDITURE PER PUPIL	SCHOOL TAXES PER PUPIL	STATE AID PER PUPIL	FEDERAL AID PER PUPIL	VALUATION PER PUPIL
Birmingham	71.25	-23.12	72.42	192.30	19.61
Mobile	75.41	36.76	69.40	198.84	26.61
Jacksonville	92.37	68.38	83.32	130.10	139.07
Miami	69.89	53.27	76.77	39.68	106.51
Tampa	81.70	19.02	84.48	102.57	106.70
Saint Petersburg	73.13	54.13	67.03	126.58	172.39
Atlanta	90.55	107.62	76.33	306.78	73.24
Columbus	.00	97.64	60.33	111.18	89.66
Louisville	91.93	19.26	31.57	653.81	.00
Baton Rouge	63.87	-19.27	66.77	189.52	23.76
New Orleans	66.43	-34.44	68.53	171.00	33.54
Shreveport	58.42	26.14	80.69	143.01	42.64
Jackson	99.59	78.28	73.71	400.86	10.00
Charlotte	85.32	72.19	81.53	229.16	251.05
Oklahoma City	66.14	125.01	79.37	322.87	68.71
Tulsa	49.20	16.02	94.29	377.68	49.62
Knoxville	65.57	201.06	49.00	190.93	12.80
Memphis	88.91	184.28	122.06	577.64	8.23
Nashville	80.93	30.26	11.62	93.06	60.87
Austin	100.38	110.68	65.46	72.81	85.88
Corpus Christi	71.01	48.14	89.42	101.34	58.59
Dallas	79.05	73.50	72.62	257.78	78.23
El Paso	60.59	64.62	70.66	64.60	46.50
Fort worth	69.15	39.44	72.48	127.72	47.12
Houston	69.20	63.48	68.33	235.88	63.71
San Antonio	76.59	72.57	82.82	90.28	99.71
Norfolk	53.97	79.06	49.11	69.85	45.28
Richmond	86.79	51.33	58.84	153.99	65.66
SOUTH AVERAGE	75.45	49.28	69.96	204.70	73.21

Table 7

	CURRENT EXPENDITURE PER PUPIL	% CHANGES FROM 1970 TO 1975 SCHOOL TAXES PER PUPIL	STATE AID PER PUPIL	FEDERAL AID PER PUPIL	VALUATION PER PUPIL
Phoenix	112.97	113.93	45.61	62.04	85.86
Tucson	52.06	48.42	124.58	32.56	88.89
Anaheim	106.60	56.56	155.42	292.30	73.44
Fresno	46.96	36.70	72.14	168.27	45.89
Los Angeles	65.54	30.71	93.26	234.75	34.34
Long Beach	68.10	57.97	58.00	11.32	28.47
Sacramento	55.41	20.08	86.47	148.56	33.15
San Bernardino	.00	11.11	30.39	41.00	.00
San Diego	55.89	71.83	83.09	132.60	41.75
San Francisco	44.07	40.32	93.76	99.94	38.61
Oakland	86.09	57.64	116.06	70.10	31.16
San Jose	68.52	58.19	99.91	-4.36	15.82
Denver	104.59	58.21	239.98	87.71	64.92
Honolulu	58.69	-10.17	.00	-31.12	81.19
Albuquerque	65.92	122.16	73.09	54.38	35.93
Portland	102.35	139.23	228.22	91.97	94.51
Salt Lake City	75.51	56.92	62.67	186.09	54.14
Seattle	82.08	77.50	71.78	159.64	611.24
Spokane	38.24	26.40	45.85	139.98	446.06
Tacoma	68.46	116.36	54.10	155.71	611.00
WEST AVERAGE	71.47	59.25	96.54	106.67	132.44

the maximum advantage of the school aid dollar in the large city school system. The federal government should move to support state aid programs which provide equalized support for basic operating programs. And both state and federal governments should act to coordinate their compensatory bilingual, vocational and special education aid programs in a way that will minimize fiscal duplication and better target combined state and federal resources on pressing urban needs.

Recognizing that state governments bear the primary constitutional responsibility for providing adequate education for all children in a state, we urge the federal government to take the following actions that will result in more coordinated and targeted state-federal funding of urban school needs:

1. enactment of an optional educational block grant program that would permit state governments to disburse federal compensatory, special, bilingual, and vocational aid to cities on the basis of state law which generally recognizes the special needs and costs of urban school systems;
2. amendment of P.L. 94-142, the Education of All Handicapped Children Act of 1975 to permit federal funds to be disbursed to local school districts on an equalized basis pursuant to state law;
3. amendment of Title I of the Elementary and Secondary Education Act of 1965 to:
 - a. increase finding levels to at least 70 percent of authorization and to provide for more Title I funds for school districts with large concentrations of disadvantaged pupils
 - b. increase Title I funding for states with their own compensatory education program and to permit state compensatory education programs to serve all disadvantaged children not adequately served by Title I federal funds

- c. provide that the Title I program be based on state law rather than administrative plan prepared by a State Department of Education. This amendment would increase state legislative oversight and involvement in the Title I program, and
4. development of a new federal general education aid program that will help states pay for a portion of the costs of sustaining and enhancing their basic equalized aid programs.

A Note About This Study

This study was prepared by the Legislators' Education Action Project (LEAP) of the National Conference of State Legislatures. The LEAP project is a technical assistance program for state legislatures that are revising or considering changes in the basic school finance programs. Established in 1974 and funded by the Ford Foundation, the National Institute of Education and NCSL, the project has helped over 15 states make studies and revisions of their basic school finance programs. The project has helped support the enactment of new school finance programs in Connecticut, South Carolina, Missouri, and Tennessee. This report is intended as a further aid to state legislators that are concerned with assessing the condition of large city school finances.

The report was prepared under the direction of Dr. John Callahan, Director of NCSL's LEAP project. Other LEAP staff assisting in the analysis of this urban school finance data included Dr. William Wilken, Associate Director of the LEAP project and Mr. Bob Edwards, Systems Analyst for the LEAP project. Dr. Seymour Sacks, Professor of Economics, Syracuse University supplied the basic data for this report and assisted LEAP staff in interpreting and analyzing the data contained in this report. A more complete report on the

conditon of urban school finances will be issued by the LEAP project in late October.

The data in this report has been collected from a variety of sources including published and unpublished data from the Office of Civil Rights, the National Center of Educational Statistics, the U.S. Bureau of the Census, and Moody's. The reader is cautioned that the data in this report are standardized to permit comparisons among cities in different states. The reader wishing to do more analysis of a particular city is advised to consult with local and state school finance analysts in the particular city and state in question.

Any further questions on this report should be addressed to Dr. John Callahan at the Washington Office of the National Conference of State Legislatures (202/624-5423).

State School Finance Reform in the 1970's
 (Excerpted from *School Finance Reform: A Legislators' Handbook*)



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 of State Legislatures

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State School Finance Reform in the 1970's

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A. Introduction

Nothing is more symptomatic of the recent renaissance in state government than the new role of states in public school finance. States in every region since 1970 have been compelled to assume a much broader responsibility for funding public education due to the convergence of several powerful forces. Local property taxes have mounted as school employees and spokesmen for children with high-cost educational needs became increasingly effective in winning greater dollar outlays. Long-simmering dissatisfaction with local property tax burdens has erupted into well-orchestrated campaigns for state relief, especially in areas with large concentrations of farmers or elderly persons. State revenue collections have fluctuated drastically, with fiscal surpluses first generating new state budget commitments while recently lagging collections have created strong pressures for greater state budget control. But most important of all, both state and federal courts have rendered decisions which have given the proponents of school finance reform a powerful lever for change. From the landmark *Serrano* decision of 1971 to more recent rulings in *Robinson* and *Horton*, the courts have made it clear public school finance laws which make the quality of a child's education dependent on local wealth are constitutionally suspect and vulnerable to judicial challenge.

The central features of the new state role in public school finance have been fourfold. First, most states with new laws have assumed substantial increases in raising public school dollars, by tapping budget surpluses, and by raising the rates of traditional state taxes. Second, many of the states with new laws have cut local school tax rates and in several instances have reduced property tax bills substantially. Third, all of the school finance reform states of the last five years have taken steps to insure a considerably closer fit between the distribution of state school aid and the presence of unusual educational needs or costs, these steps being most visible in the comprehensive pupil weighting systems implemented in five states. And finally, the great majority of post-*Serrano* reform states have imposed systematic controls on the growth of local school budgets, either by setting strict limits on local taxes or by establishing ceilings on school expenditures.

This report describes and evaluates the record of reform in several states which have revised their school finance systems since 1971. This introductory chapter provides an overview of reform's recent successes, short-

comings, and prospects. Six subsequent chapters offer a close look at its main features. Chapters II and III analyze new school aid legislation designed to place additional dollars behind high-cost children or to channel greater state aid into urban and rural areas. Chapters IV and V examine the fiscal management of new reform laws, the former focusing on taxing and spending controls, the latter on revenue needs. Chapters VI and VII deal with two new issues that state legislators are facing in their efforts to build more equitable school finance systems. Chapter VI discusses the issues involved in developing a cost of education index that will enable more state aid to be directed to areas with extraordinary education costs. And Chapter VII relates the issues involved in meshing of state and federal education aid programs to bring about more fiscal equity for local taxpayers and poor children. In sum, this booklet is intended to help the concerned state legislator and his staff to better understand how states can improve their basic school finance laws.

B. School Finance Reform: The Accomplishments and Shortfalls

The issues faced by state legislators, courts and chief executives in reforming education finance are complex and difficult to resolve without considerable political compromise. The outcomes of this bargaining process, however, have been basically positive and progressive. New finance laws, on balance, have improved the equity of this nation's school finance system. School property taxes have been reduced in many poorer communities and school tax burdens have been distributed more equitably among local taxpayers. State-imposed school tax and budget controls have kept school taxes down and expenditure increases manageable in a time of declining enrollments.

At the same time, reform has permitted a greater than average increase in school expenditures in many poor school districts. More state monies have been allocated to children who are costly to educate, and many states have developed new aid programs to meet the pressing school finance needs of urban centers and rural areas. In short, poor taxpayers and educationally disadvantaged children have been the main beneficiaries of new school finance laws.

But the record of school finance reform needs improvement. In some cases, school tax and expenditure controls have prevented bridging expenditure gaps between rich

and poor communities. More flexible controls to reduce this expenditure imbalance are still required in many states. Better funded categorical programs for the exceptional educational needs of disadvantaged in urban and rural areas are still urgently needed in some states. More sophisticated aid formulas that consider income poverty and excessive non-educational tax burdens also would help hard-pressed urban areas.

States also could continue to improve the fiscal equity of their school aid policies by repealing those aid provisions which provide minimum aid to all districts regardless of their wealth. These policies still compromise the fiscal equity of many state aid plans. Finally, states need to exercise considerable supervision of their aid systems to insure that aid is directed to communities that need it most. To that end, many states will have to encourage poorer communities to take the maximum fiscal advantage of new aid reform laws. While most new reform laws have not diminished local control of education, states still must face up to the responsibility of helping poorer districts attain the maximum benefits of their state aid laws.

School Property Tax Reduction. Reduction of school property tax burdens has been the most dramatic and visible achievement of new finance reform laws. At least five states with new funding legislation—Colorado, Kansas, Minnesota, North Dakota, and Wisconsin—have been experiencing absolute reductions in local school revenue collections (almost wholly property taxes) at a time when the collections in many non-reform states have been going up several percentage points a year. Wisconsin, for example, took steps which brought \$92 million in local school property tax relief between 1973 and 1974. Minnesota, as Table 1 shows, embraced legislation which allowed a typical household to reduce its combined state income and local property tax bill by about 4 percent between 1971 and 1973. Similarly, Arizona adopted new school funding legislation which permitted property taxes on a \$20,000 house in Phoenix to fall by 16.3 percent between 1974 and 1975.

Property tax burdens not only have been reduced in some reform states, but also have been made much more equitable. Prior to the new laws, taxpayers in poor com-

munities often paid well-above-average tax rates for well-below-average quality school services. Today this condition is less prevalent. Consider, for example, the case of Wisconsin. In the year before its reform law went into effect, the state's 37 most property-poor K-12 school districts were able to have current expenditures of \$54.61 per pupil for every mill of operating tax effort. The 37 most property-rich K-12 school districts, in contrast, were able to have current expenditures of \$63.34 per pupil for the same tax effort (see Appendix Tables W-1 through W-7 for definitions). But in the year Wisconsin's new law went into effect, the ability of the richest and poorest school districts to spend for education was almost completely equalized. In 1974, one mill of operating tax effort allowed the wealthiest 37 school districts to have current expenditures of \$84.40 per pupil. And in the 37 poorest school districts, one mill of operating tax effort permitted current expenditures of \$85.01 per pupil.

The story is equally graphic in Michigan. In 1972-73, the year before reform, a 25 mill tax rate in the state's richest and poorest communities would have yielded about a \$239 per pupil difference in their revenues. When Michigan's new law went into effect in 1973-74, that disparity was reduced to \$134 per pupil as Table 2 indicates. Michigan's tax relief of 1973-74, however, was not without considerable precedent. Michigan had taken significant steps to reduce property tax disparities ever since the late 1960's, most notably its "municipal overburden" property tax relief program first instituted in 1964 and expanded ever since. Under this program, Michigan school districts are entitled to special state assistance to the degree its non-educational property taxes exceed the state average by greater than 125 percent.

Not just in Michigan but in several other states, cities have been among the prime beneficiaries of property tax relief provided through school finance reform. Between 1973 and 1974, Kansas City and Topeka were able to cut their educational property tax rates by an average of 11 percent, while Kansas school districts statewide were able to achieve, as Table 3 shows, only about a 1 percent rate reduction (see Appendix A, Table K-1 through K-7 for definitions). Similarly, almost all Colorado cities except Den-

TABLE 1
ESTIMATED AVERAGE STATE PERSONAL INCOME TAX AND LOCAL PROPERTY TAX PAID BY MINNESOTA
HOUSEHOLDS WITH AN INCOME OF \$10,000 TO \$11,000 AND A HOME VALUED AT \$21,000
1971 TO 1973*

Item	Average Tax Payment			Pct. Change 1971-1973
	1971	1972	1973	
State Personal Income Tax on \$10,000 to \$11,000 income	\$384	\$435	\$435	13.3%
Local Property Tax on \$21,000 Home	489	425	404	-17.4
Total	\$873	\$860	\$839	-3.9

* Minnesota Legislature, 1975.

TABLE 2

EVOLUTION OF IMPACT OF MICHIGAN STATE AID FORMULA

Year	District (SEV) Per Pupil	20 MME Districts	Difference Between High & Low SEV	22 MME Districts	Difference Between High & Low SEV	25 MME Districts	Difference Between High & Low SEV	27 MME Districts	Difference Between High & Low SEV	30 MME Districts	Difference Between High & Low SEV
1969-70	\$10,000	\$549.00		\$589.00		\$ 599.00		\$ 619.00		\$ 649.00	
	20,000	828.00		888.00		728.00		768.00		828.00	
	30,000	738.00		788.00		888.00		948.00		1,038.00	
	40,000	848.00	\$299.00	928.00	\$339.00	1,048.00	\$449.00	1,128.00	\$509.00	1,248.00	\$599.00
1972-73	\$10,000	\$715.00		\$725.00		\$ 785.00		\$ 785.00		\$ 815.00	
	20,000	724.00		764.00		824.00		864.00		924.00	
	30,000	764.00		824.00		914.00		974.00		1,064.00	
	40,000	804.00	\$ 89.00	884.00	\$159.00	1,004.00	\$239.00	1,084.00	\$299.00	1,204.00	\$389.00
1973-74	\$10,000	\$780.00		\$836.00		\$ 886.00		\$ 886.00		\$ 916.00	
	20,000	780.00		836.00		896.00		936.00		996.00	
	30,000	780.00		836.00		926.00		986.00		1,076.00	
	40,000	800.00	\$ 40.00	880.00	\$ 44.00	1,000.00	\$134.00	1,080.00	\$194.00	1,200.00	\$284.00
1974-75	\$10,000	\$780.00		\$858.00		\$ 975.00		\$ 995.00		\$1,025.00	
	20,000	780.00		858.00		975.00		1,015.00		1,075.00	
	30,000	780.00		858.00		975.00		1,035.00		1,125.00	
	40,000	800.00	\$ 20.00	880.00	\$ 22.00	1,000.00	\$ 25.00	1,080.00	\$ 85.00	1,200.00	\$175.00

Source: Dr. James L. Phelps, "New Equity in Michigan School Finance Second Year Results," Unpublished manuscript, Office of the Governor, 1975.

ver and Colorado Springs have experienced reductions in school tax rates well in excess of the state average. Between 1973 and 1974, for example, the school tax rate statewide fell by about 2 percent, but dropped more than 9 percent in Boulder, by more than 18 percent in Greeley, and by over 23 percent in Grand Junction. Reform in Illinois brought an increase in most urban tax rates, but by a substantially smaller degree than statewide. From 1973 to 1974, the average school tax rate statewide went up by 15 percent, but the rates in Peoria and Springfield, for example, increased by no more than 7 percent (see Appendix A, Tables 1-1 through 1-8 for definitions).

It should be noted, however, that the significance of many recent tax rate changes is clouded considerably by the very rapid shifts that have been taking place in real estate values, and which may or may not be reflected in local assessments. As Table 4 shows, for example, reported property values in Wisconsin increased greatly between 1973 and 1974, the same time that the state was implementing its new school finance law. In contrast, reported values in Illinois grew hardly at all even though the state's substantial agricultural lands were inflating in value at an unprecedented rate.

As states have taken steps to reduce school property taxes, they also have instituted measures to keep them stabilized in the future. With a handful of notable exceptions, most school finance reform states of the 1970's have made tax and/or expenditure limitations on local school districts an integral part of their new legislation. Tax ceilings are now in place, for example, in Florida, New Mexico, North Dakota and Minnesota. Related measures which discourage high local tax effort are in effect in Maine, Utah and Wisconsin. And expenditure lids are in operation in Colorado, Iowa, Kansas and several other states.

The new tax and expenditure controls on local school districts differ substantially in their stringency. In New Mexico, for example, the tax rate limitation is absolute, no exceptions are allowed. In some states, Colorado and Wisconsin, for example, outlays can be increased over prescribed levels by appeal to state school budget review committees. In other states, such as California and Minnesota, budgets can be altered by appeal to local voters through the referendum process, while several states incorporate multiple escape routes.

Local success in overcoming the new budget controls has varied substantially. Budget overrides tied to referenda have been the hardest to achieve, but not invariably so. Iowa, for example, has experienced only one successful budget override election in five years. But California has witnessed so many that the referendum escape clause proved a major factor in the so-called "second Serrano" case which declared the state's response to the first Serrano decision unconstitutional. And just as much variability is evident in the case of other types of budget limitations. Colorado and Wisconsin school districts, for example, have been fairly successful in their appeals to their respective state budget review committees. Iowa school districts, however, seem to have found appeals somewhat more difficult, often gaining very little additional budgetary leeway for their effort.

The Need For More Flexible Expenditure Control. Unfortunately,

state tax and expenditure limits on local school districts appear to be constraining the ability of poor communities to catch up to the expenditure levels of wealthy communities. These fiscal constraints have been adopted in order to insure that new state aid would bring about local school property tax relief and that new aid programs would not result in massive and unmanageable jumps in school expenditures. While the intent of these controls is understandable and acceptable to the general public, they may reduce the equality of educational opportunity that is offered by some new state finance plans. As a result, the same districts that exhibited very low educational expenditures before reform continue to spend at fairly low levels after reform.

Indeed, the specific structure of expenditure controls in states such as California, Kansas, Wisconsin, and Colorado may prevent poor local districts from ever catching up to the spending levels of wealthier units. Table 5 shows, for example, per student expenditures in Kansas' lowest-wealth school districts exhibited less growth than the per student expenditures in its highest-wealth communities. Moreover, initial state experience with fiscal controls reveals that rich rather than poor districts are more apt to seek exemptions from such fiscal restraints. Rich districts in California have been more successful in their override elections than poorer units. They also have been able to raise expenditures at these elections to a greater extent than poorer jurisdictions. Wealthier districts in Wisconsin have been more apt to seek and be granted cost control exemptions than poorer units though the average cost override for all districts was usually only \$2500 per request. While these expenditure and cost controls have enjoyed considerable public popularity, state lawmakers must see to it that they do not curtail the ability of poorer districts to substantially raise the level of their educational offerings.

Greater Educational Equity. Notwithstanding tax and expenditure limitations, the state school finance reforms of the 1970's have equalized educational opportunity to a greater extent than in years past. As Table 6 suggests, however, the course of change has been uneven (see Appendix A for greater detail). Some states—like Florida, Iowa, and Michigan—have adopted legislation which has substantially narrowed the expenditure gap between rich and poor communities. A decade ago, for example, Iowa had one of the most disparity-ridden school finance systems in the nation. This year there is no more than a 20 percent variation in the per student general fund expenditures in 90 percent of its school districts. And Michigan shows signs of following a similar pattern. Between 1973 and 1974, its 52 lowest spending school districts experienced an \$89 per student increase while its 52 highest-spending districts had no growth.

Reforms adopted by some states will reduce expenditure disparities over a longer period. Minnesota's revisions of 1971, for example, will not begin to narrow the range between the highest and lowest spending districts until the present year, having first emphasized equalization among the bulk of districts rather than its spending "outliers." Similarly, Illinois' new law has had little consequence for expenditure disparities in general, allowing expenditures in the states' poorest school districts actually to rise

TABLE 3

**SCHOOL OPERATING TAX RATES PER \$1000 ASSESSED VALUATION IN UNIFIED SCHOOL DISTRICTS
OF SEVEN STATES BEFORE AND AFTER REFORM***

Level and Year	School Operating Tax Rates per \$1,000 Assessed Valuation						
	Florida	Illinois	Kansas	Michigan	New Mexico	Utah	Wisconsin
Year Before Reform							
Minimum	6.80	\$10.74	4.27	\$10.01	\$ 2.22	\$17.60	\$ 6.33
First decile	7.45	18.47	10.07	15.20	2.22	21.40	11.08
Median	10.00	25.97	21.58	22.25	4.44	28.23	15.25
Tenth decile	10.14	41.75	40.87	31.83	4.56	54.38	19.53
Maximum	10.85	55.81	75.23	38.74	5.00	35.30	28.79
Year After Reform							
Minimum	6.00	10.90	3.51	11.38	1.11	20.46	4.08
First decile	6.74	17.53	12.22	16.73	8.06	22.43	7.78
Median	10.00	24.81	21.77	22.75	11.15	28.23	11.39
Tenth decile	10.00	39.55	34.27	38.09	11.15	34.90	15.83
Maximum	10.00	58.03	54.31	37.43	11.15	36.18	23.36
Before to After: Pct Change							
Minimum	-11.8	1.5	-17.6	13.8	-49.9	18.3	-35.5
First decile	-9.5	-8.1	21.4	10.1	262.3	4.8	-30.0
Median	0	-4.5	1.0	2.2	150.8	0	-25.3
Tenth decile	-1.4	-8.3	-15.7	19.7	144.1	1.6	-18.9
Maximum	-7.8	4	-27.8	1.9	123.0	2.4	-18.9

*See Tables in Appendix A for definitions.

**New Mexico's tax rates the year after reform should be interpreted cautiously since they may reflect certain non-educational taxes.

TABLE 4

**ASSESSED VALUATION PER PUPIL AT SELECTED LEVELS IN UNIFIED SCHOOL DISTRICTS
OF SEVEN STATES BEFORE AND AFTER REFORM***

Level and Year	Assessed Valuation per Pupil						
	Florida	Illinois	Kansas	Michigan	New Mexico	Utah	Wisconsin
Year Before Reform							
Minimum	\$ 9,678	\$ 3,153	8,156	\$ 2,886	2,062	3,441	4,747
First decile	14,181	10,058	10,380	8,447	3,104	4,141	18,553
Median	22,290	23,312	24,741	18,890	11,886	8,178	32,430
Tenth decile	73,095	54,442	68,185	54,131	50,823	18,990	64,980
Maximum	96,697	106,250	138,251	297,041	97,585	19,223	153,780
Year After Reform							
Minimum	\$ 14,283	3,069	5,582	3,363	2,153	3,794	5,402
First decile	16,872	10,193	11,252	10,458	3,883	4,546	25,296
Median	34,881	24,000	27,955	18,481	12,868	8,839	41,830
Tenth decile	96,379	54,687	78,722	54,678	57,861	17,462	83,100
Maximum	118,012	124,919	158,814	149,977	106,052	20,786	200,100
Before to After: Pct Change							
Minimum	47.4	-3.0	7.9	18.0	3.4	10.3	13.8
First decile	18.9	1.4	8.4	10.3	18.0	9.8	36.2
Median	58.8	3.0	13.0	10.5	8.3	8.0	28.4
Tenth decile	30.4	4	15.5	0.8	13.8	2.8	27.9
Maximum	20.0	14.3	11.3	-49.5	7.7	8.0	30.1

*See Tables in Appendix A for definitions.

TABLE 5
EXPENDITURE, WEALTH, AND STATE AID DATA OF KANSAS SCHOOL DISTRICTS
BY WEALTH DECILE, 1973-74 & 1974-75

Wealth Decile	Wealth/Pupil	1973-74	State Aid/ Pupil	Wealth/Pupil	1974-75	State Aid/ Pupil
		General Fund Budget/Pupil			General Fund Budget/Pupil	
1	\$14,904	\$ 700	\$429	\$16,120	\$ 784	\$501
2	20,243	780	420	23,206	868	501
3	23,283	764	375	27,199	870	440
4	26,310	839	384	31,087	923	409
5	29,604	864	351	34,972	985	389
6	32,577	943	330	39,171	1,007	342
7	37,013	992	301	42,250	1,101	281
8	43,475	1,092	236	52,796	1,186	174
9	52,002	1,155	66	64,339	1,299	42
10	75,705	1,460	0	89,476	1,549	0

(Total Districts = 310)

Source: NCSE computations from school finance data supplied by the Kansas Department of Education.

TABLE 6
CURRENT EXPENDITURE NET OF TRANSPORTATION PER PUPIL AT SELECTED LEVELS IN
UNIFIED SCHOOL DISTRICTS OF SEVEN STATES BEFORE AND AFTER REFORM*

Level and Year	Current Expenditure Net of Transportation Per Pupil						
	Florida	Illinois	Kansas	Michigan	New Mexico	Utah	Wisconsin
Year Before Reform							\$ 582
Minimum	585	\$ 721	497	\$ 697	623	516	651
First decile	659	808	613	785	667	585	775
Median	777	970	855	938	792	644	1,031
Tenth decile	1,026	1,281	1,520	1,501	1,358	1,031	1,535
Maximum	1,199	2,046	2,192	7,448	1,552	1,075	
Year After Reform							663
Minimum	645	762	609	725	709	526	751
First decile	725	893	875	874	783	619	896
Median	857	1,044	897	1,042	915	698	1,191
Tenth decile	975	1,434	1,528	1,499	1,587	1,210	1,842
Maximum	1,240	2,443	2,211	4,003	1,706	1,298	
Before to After: Pct. Change							18.0
Minimum	10.3	5.7	22.5	4.0	13.8	1.9	15.4
First decile	13.1	10.5	10.1	11.3	14.0	9.6	15.9
Median	10.3	7.6	4.9	11.1	15.5	8.4	15.5
Tenth decile	-5.6	11.1	5	-0.1	9.9	20.6	7.0
Maximum	3.4	19.4	3.7	-48.3			

*See Tables in Appendix A for definitions.

less than in its richest school districts (see Appendix A, Table 1-2 for details). Illinois' legislation, however, has increased expenditure equalization among one class of school districts, elementary districts, and has channeled substantially greater resources to communities impacted by large concentrations of poverty pupils.

Supplementary aid for communities in Illinois with large concentrations of poverty pupils symbolizes perhaps the most important aspect of the recent reform laws when viewed from the perspective of educational equity. In-

creasingly, the new laws have put dollars behind the long-standing idea that some children cost much more to educate than others.

Several reform states—Florida, New Mexico and Utah among others—have adopted pupil weighting systems that guarantee additional state funding for children that are hard or costly to educate. Thus, Florida, New Mexico, and Utah all pledge from 2 to 4 times more funding for the education of special education children, 1.5 more for bilingual education, and 1.3 more for education of primary

school students. New York now provides 25 percent additional state funds for children that are found to be educationally disadvantaged on the basis of statewide standardized tests. New aid programs in Minnesota have raised \$150 in additional per pupil funding for Title I pupils in Minneapolis and St. Paul. In a similar manner, rural states have provided the necessary support for many sparsely settled or isolated school districts, preventing major increases in local school taxes and perhaps premature consolidation. Finally, a few states have tried to equalize the purchasing power of the school dollar from one community to the next. Cost of living, indices, for example, have been adopted by Florida, and have brought from 7 to 10 percent more school aid to urban communities. Somewhat in the same vein, some reform states have adopted training and experience "adjustments" as an integral part of their basic school aid formulas. Under such adjustments, some school districts in Utah and New Mexico, for example, receive up to 11 percent greater aid than they would obtain without them.

Several states have also improved the equity of their aid policies by measuring the local fiscal capacity on the basis of both property values and income. This permits states to channel considerably more monies to communities that are both income and property poor—jurisdictions that have a limited tax base and that also house poor populations unable to afford additional school taxes. Connections unable to afford additional school taxes, when fully funded, will give poor districts an additional \$1700 per pupil in state aid while Birdeport an additional \$1700 per pupil in state aid while wealthy Greenwich would receive no state funds. Many rural communities in Kansas have benefited by similar measures that recognize the relative income poverty of local residents.

While some reform states have addressed educational costs and needs by adjustments in their basic aid formulas, others have aimed at these problems through expanded use of categorical grants. New categorical programs for compensatory education have been established in Virginia, Wisconsin, California and Utah. In Michigan revenues for categorical aid programs will equal those going into the general aid formula in the coming year. Nationwide, state special education funding has increased from \$900 million to \$2.2 billion. Bilingual education programs have also been more prominent, with Colorado, Texas, Illinois and New Mexico now adding major new programs.

The Need for Even More Equalizing School Aid Policies. New finance reforms have been favorable to some central cities and poorer rural areas. Special provisions, in many state reform laws provide additional funding to these areas. Without these adjustments, many urban and rural areas would have had to raise rather than lower taxes as a result of reform or cut back their educational expenditures.

At the same time, it is clear that states could do more to meet the pressing fiscal needs of urban centers and rural hamlets. Only one state—Michigan—recognizes the fact that high non-school taxes curtail the ability of large cities to finance their education needs. Yet, if the program were fully funded it would receive three or four times that amount. Not all reform states have developed categorical grants for funding compensatory or bilingual education programs. Nor have all states followed the lead of Min-

nesota and Illinois in making additional state aid available to a district when its concentration of hard-to-educate pupils exceed state average. Moreover, no reform state has yet to fully perfect a cost-of-education index that will channel more state aid to areas where it takes more money to provide a quality education. Only Florida with its cost of living adjustment comes close.

Rural areas could be treated more fairly in some state school aid plans. While many small districts are heavily subsidized in such reform states as Utah and New Mexico, several states do not make special provisions to meet the special funding needs of these areas. This contrasts with Kansas which permits a higher level of reimbursable expenditure in these small units, and which may prevent premature consolidation of these units which often provide a high-quality education to their students. Where rural areas have not been given special status in new aid laws—in Wisconsin and Michigan, for example—they have not always been able to expand their school expenditures as fast as other, more suburban areas which have a stronger tax base and a greater inclination to raise school taxes to bring in additional state aid.

Continuing Obstacles to Equity. Efforts to improve school finance equity in coming years will be undermined unless states are better able to come to grips with the problem of ineffective or impotent state aid administration. Unfortunately, there are some signs that recent improvements in state school finance legislation are being frustrated by the inability or failure of state administrators to ensure that poor communities take maximum advantage of new funding opportunities. In Utah and Florida, for example, many poor rural school districts have classified very low percentages of their pupils in high-cost special education programs despite evidence that they have high concentrations of special needs pupils.

In New Mexico, while poorer rural districts fare better in pupil weighting systems than wealthier urban areas, they have been unable or unwilling to attract more qualified teaching personnel, and this has resulted in a reduction of their state aid entitlements. Many poorer school districts in Michigan have not raised school taxes to bring in substantial additional state aid for their children. In short, poorer districts have not always parried off all the benefits of new state aid programs. States must find new ways to encourage them to do so whether it be through measures to further relieve undue school tax burdens or through preferential aid programs for very poor districts.

While many poor school districts have failed to avail themselves of reform's benefits, some communities have made a concerted effort to take all of its benefits—and made a concerted effort to take all of its benefits—and then some. In Florida and Utah, for example, a number of localities attempted to classify pupils in high cost programs at a rate far above the state average. Thus, Florida, New Mexico, and Utah have put "caps" on the number of pupil weightings that the state will fund to prevent misclassification of students for additional state aid. Wisconsin and Michigan have made revisions in their aid formulas that make it more difficult for wealthier districts to raise additional funding through higher school tax rates, and several states are analyzing their expenditures controls to make sure that wealthier districts do not receive undue favoritism from state budget review boards.

However, the cause of improved school finance equity in some states will be frustrated additionally by the continuing presence of flat grants even though this practice has been deemed unconstitutional in state court. Connecticut continues its \$250 per pupil flat grant program even with the adoption of a new aid formula. Kansas has dropped minimum aid payments to its districts but rebates all districts 15 percent of the state income tax collected there. Michigan, Wisconsin, Maine and Montana, however, have demonstrated that minimum aid payments can be done away with altogether.

Michigan now denies formula aid to 61 school districts and Wisconsin allots no general aid to 16.

Some states have even gone one step further and required very wealthy districts to pay some of their local tax collections to the state for redistribution to poorer districts. Maine has collected nearly \$7 million in "excess" levies for poorer school districts. Wisconsin's first "recapture" will occur in spring of 1977 and result in \$3.4 million. Recapture provisions are also on the books in Montana and Utah where mineral-rich school districts will contribute to state school equalization funds. In short, states cannot afford to continue unnecessary subsidies to rich districts that have little need for such aid.

Increased State Revenue Without Loss of Local Control. Significantly, little of the increased taxpayer and pupil equity of the new school finance formulas would have been possible were it not for the ability and willingness of the reform states to assume a greater degree of responsibility for funding public schools. As Table 7 indicates, the state proportion of state and local school funding has increased during the last three or four years from about 39 percent to approximately 51 percent. This growth in state responsibility, however, has been achieved for the most part without an increase in state taxes. Most of the increase has been financed out of treasury surpluses which, unfortunately, are now limited almost exclusively to the nation's agricultural and energy-producing states. Some of the increase—in Montana, for example, was financed by substituting statewide property taxes for local taxes. But only Arizona, Florida, and Minnesota have been forced to raise state levies to finance their new laws.

As reform states have assumed increasing responsibility for funding public schools, some have been perhaps naturally apprehensive that additional state dollars would entail a substantial erosion of local control over education. This, however, has not been the case. In state-after-state, there has been a conscious attempt not to impinge on local educational decisionmaking.

New pupil weighting programs in Florida, for example, simply commit the state to fund a high level of cost for hard-to-educate pupils when a local district decides to serve such children. This removes an important local constraint against providing high-cost programs. Similarly, the law's new emphasis on school-site budgeting gives more programmatic authority to the local school principal and brings educational decision-making even closer to the local community in states with expenditure controls.—Colorado, Kansas and Wisconsin particularly—state budget review boards exempt local school districts from expenditure controls when they have to meet extraordinary educational costs mandated by state law or when these

TABLE 7

STATE PROPORTION OF TOTAL STATE-LOCAL SCHOOL FUNDING PRE- AND POST-REFORM PERIODS—18 SCHOOL FINANCE REFORM STATES

State	Date Of Reform	State Share of Total State-Local Expenditures In:	
		Last Year Before Reform	First Year After Reform
Arizona	1974	42.0%	54.8%
California	1972	38.7	45.3
Colorado	1973	28.9	39.9
Connecticut	1975	24.2	N.A.
Florida	1973	61.3	62.5
Illinois	1973	39.3	44.3
Indiana	1975	38.2	N.A.
Iowa**	1971	32.5	38.3
Kansas	1973	29.8	47.7
Maine*	1973	38.6	38.5
Michigan	1973	49.4	52.9
Minnesota	1971	50.7	60.9
Montana	1973	27.5	43.8
New Mexico	1974	74.5	77.8
North Dakota	1973	32.2	48.1
Texas	1975	46.1	N.A.
Utah	1973	58.4	61.9
Wisconsin	1973	31.8	39.0
18 State Average		39.0	51.0 est.

*Reflects an \$83,000,000 reported State appropriation rather than \$100,000,000 as reported by State Commissioner of Education.

**Iowa's law has been phased-in over several years. In 1975-76, the state share will exceed 50 percent.

Source: National Education Association Research Division. Estimates of School Statistics, selected years and selected state data from the N.C.S.L. LEAP School Finance Data base.

controls would severely disrupt the quality of their educational programs. Virtually all school districts in Colorado have received full or partial exemptions from controls while a substantial number in Kansas and Wisconsin have also been given relief from state controls that would otherwise have reduced the quality of local educational programs.

But perhaps most important of all, it is becoming evident that increased state funding responsibility has had the effect of making local school policy arguments focus much more on educational issues than tax issues. Unlike in the past, for example, Florida school board elections revolve almost wholly around educational questions; taxes cannot be an issue since they are no longer subject to wide local discretion.

C. School Finance Reform: The Future Prospects.

The future prospect for school finance reform is uncertain. Difficult economic conditions, federal aid policies and mounting public concern about the effectiveness of schools all combine to make it more difficult for a state to revise their school aid policies. Unless these forces shift, states may be unable or unwilling to undertake new finance policies which will reinforce recently enacted taxing and spending revisions.

The Shaky Conditions of State Finances. The single

greatest obstacle to broad-based reform is the shaky condition of state government finances. Few states would have enacted the school finance revisions of the early to mid-1970's had they lacked the unprecedented budgetary surpluses of the period. Reform almost certainly would have been limited to the handful of states, like California and Kansas, where there were compelling court mandates for change, or it would have taken a very different form, addressing budget limitations and property tax relief almost exclusively. Widespread redistribution of state dollars and the general leveling-up of school expenditures would have been out of the question.

It is hardly a coincidence that the highwater mark of the school finance reform movement over the last five years occurred in 1972 and 1973, the first time that the states had experienced a surplus in their general government accounts since 1947. This surplus, however, is now depleted or entirely eliminated in all but a handful of states, mainly those like Texas or Louisiana that are benefiting from swelling tax collections, or those like Iowa or Minnesota that have a well-balanced economic base, bolstered by a strong agricultural sector.

States are responding to their lagging revenue collections for the most part either by deferring major school finance reforms altogether or by approving substantial budget reductions. Some states, particularly Massachusetts and New York, have been hit so hard by budget deficits that school finance reformers have shelved any thought of mounting a serious revision effort for at least two years. Other states like Connecticut and Georgia have responded to their budgetary reversals by enacting new reforms but deferring new funding indefinitely. And still other states like Florida, Illinois and Michigan, have reacted by approving cutbacks in school funding which indicate a marked reversal for their major school finance reforms of 1972.

Given current budget projections, funds to support major changes in the school finance laws of most states will not be available until fiscal 1978 at the earliest. Research done for the American Enterprise Institute, for example, projects a surplus in state general government accounts of no more than \$1.6 billion per year between 1976 and 1980. This amount is only about 40 percent of the general government surplus found in state budgets in 1972. Moreover, it is based on exceedingly optimistic assumptions about the rate of inflation and unemployment. But even with a modest economic recovery, interests representing school finance reform will find much more intense competition for available dollars than in the early 1970's. Unlike a few years ago, large cities are now in a precarious fiscal condition, having shouldered a disproportionate share of unemployment and other consequences of the mid-1970's recession. Additionally, public employee trust funds are likely to be in an increasingly tenuous position if their equity continues to be eroded by the 5 to 10 percent inflation rate of the last two years. And perhaps most important of all, the shifting demographic composition of most states implies reduced support for youth-oriented services like education and broadened support for services primarily of benefit to the aged, especially improved medical care. The declining school-age population, however, may not be so detrimental to the interests of school

finance reform as some have projected since there is evidence that some states may view reduced enrollments as an opportunity which will allow greater school finance equity but at reduced overall cost.

The Lack of Adequate Federal Support. Efforts to make state school finance legislation more equitable in the near future are likely to be hampered not only by shortfalls in state tax collections but also by the failure of the federal government to provide appropriate support for state reform efforts. Indeed, some important education legislation has the effect of directly undermining state reform programs. Impact aid (Public Law 874), for example, will continue to flow directly to rich and poor school districts alike in reform states like Maine and North Dakota unless current federal regulations are changed significantly. If reform states are prohibited from including P.L. 874 monies as state revenues, the equalizing features of new reform legislation will be undermined. Under the Education Amendments of 1974, states are permitted to count sometimes sizeable federal impact aid payments as part of basic state aid, and accordingly, to prevent disqualifying consequences. These regulations, however, have been drawn in such a fashion that few reform states—probably only Kansas, Florida, Iowa and New Mexico—will be allowed to count impact aid to prevent disqualification and the windfall aid frequently received by very wealthy school districts with large numbers of so called "B" students. But more important, it will undermine a real opportunity for the federal government to encourage greater school finance equalization during a time when state budgetary troubles are unlikely to allow sweeping reform legislation.

The disqualifying effects of impact aid, unfortunately, are likely to be small compared to the consequences which may ensue from the recently signed Federal Education for All Handicapped Children Act. Under the provisions of this legislation, federal authorizations for the education of handicapped children will increase to at least \$3 billion by 1982, a sum larger than that appropriated currently for any single program of federal school aid. This funding, however, will be divided so that all but 25 percent is passed directly to local education agencies. Rich school districts will be entitled to as much as poor ones.

Thus far, only the federal government's continued funding of the Title I compensatory education program and its recent creation of small-scale educational block grants have proved of major assistance to state finance reform efforts. Title I funds overall tend to flow much more to poor school districts than to wealthy ones, and more to racially and educationally overburdened urban districts than to more advantaged suburban communities. Moreover, the educational grant consolidation allowed under Title IV of the Education Amendments of 1974 allows state education agencies greater flexibility to concentrate resources on programs that are most in need of increased state support. This potential for increased concentration may prove somewhat of a mixed blessing in some states, however, if state education agencies continue to respond as indiscriminately as in the past to the skilled grantmen of affluent suburban school districts.

At this point, the federal government seems to be interested in supporting state equalization efforts only if it

costs very little money. In the next year, for example, it is likely that Congress will fund Section 842 of the 1974 Education Amendments for about \$13 million, a piece of legislation which is designed to support state planning for greater equalization in school spending. It already has provided allied research and planning support through some of the activities of the National Institute of Education, though substantially below the level which would apply if educational research were funded at the rate of research for most other public services.

Changing Judicial and Popular Sentiment. It has become especially difficult to promote new reforms due to shifts in judicial and popular attitudes which played such an important role in the legislative changes of the early 1970's. While state courts in California, New Jersey, and Connecticut have mandated new school funding systems, courts in Idaho, Washington and Oregon have affirmed the constitutionality of existing finance policies. Courts are becoming hesitant to declare school funding systems unconstitutional without concrete evidence of educational injuries that occur as a result of inequitable finance policies. At the same time successful federal and state court suits in handicapped and bilingual education cases are requiring more state appropriations for these programs. Partly from court suits and partly from public demand, state appropriations for the handicapped have increased from \$900 million to \$2.2 billion in only three years. As these specialized court suits become more prominent, state legislatures may find funds diverted away from reforms designed to benefit all children. Where state and federal court action once promised a new day in school finance, new judicial pressures seem unlikely to result in many new sweeping school finance reforms.

Public dissatisfaction with increasing educational costs during a period of declining enrollments, and public concern about falling test scores are other factors which have short-circuited the ground swell for reform. The public, to be certain, is still in favor of new finance plans that relieve unfair school tax burdens or that result in tighter control over increasing school costs, but it also wants new educational dollars to make a difference in the performance of its schools. Consequently, several new state reform laws require a greater degree of educational accountability than was true in the past. For example, Wisconsin's and Virginia's new finance laws set standards of educational quality aimed to insure more equalized school offerings among school districts in those states. Florida's new finance reform "tracks" educational dollars straight to a child's specific educational program and also requires each school district to publish an understandable educational plan that tells local citizens how their school districts are spending their money. In New Mexico, state and local officials jointly prepare and explain school budgets in local communities.

Even with these advances, however, the public remains skeptical about the efficiency and effectiveness of their schools. It sees test scores declining, and it is alarmed that children are working hard at school, and it is alarmed by popular research showing that increased school funding will do little to improve educational achievement. In such a climate of public opinion, state legislatures will find it very difficult to raise more monies for educational

reform. Until the national government funds more rigorous basic educational research, until state and local school officials encourage and support more productive "demonstration" school programs, and until the public understands that it will take time to develop more productive educational programs for their children, new school funding may be difficult to come by. Unless the economic productivity and educational effectiveness of our schools are improved, it is hard to conceive of the general public supporting major new finance reforms. School finance equity may well be the first casualty of lagging school productivity.

D. Conclusion: Strategy for Reform

The record of the four years following the Serrano case demonstrates the states' desire to work toward fiscal equity in school finance systems. School property taxes have been reduced. Expenditures in poorer districts have often been increased. More state funds have been allotted to children with costly learning problems. Tax and expenditure controls have been established to produce more local fiscal discipline, and new aid programs have been developed to meet the extraordinary school finance needs of urban and rural areas. In short, poor taxpayers and educationally disadvantaged children have been the main beneficiaries of reform. Any shortcomings in state school finance reform are overshadowed by these achievements.

However, states can still do more to improve equity through their funding systems while preserving local control of education. Federal and local governments can also contribute to this goal.

State Strategy. States should:

- (1) continue to focus their attention on the school finance needs of poor children and poor school districts;
- (2) discontinue any remaining aid to very wealthy school districts;
- (3) encourage poor school districts to take full advantage of the fiscal benefits of new aid laws by providing technical assistance, where appropriate, and by offering preferential aid to the poorest districts;
- (4) waive tax and expenditure controls which prevent poorer school districts from raising the quality of their local school services; and
- (5) respect local control of education but demand that local school officials become more open and accountable to the general public about what goes on in schools and about what they are attempting to do to meet the educational needs of their students.

Federal Strategy. At the same time, the federal government should:

- (1) increase the level of Title I compensatory education programs, currently 40 percent funded, to better serve the more educationally disadvantaged;
- (2) consider the enactment of a general aid to education program to help maintain the fiscal equity of reformed state aid programs, or extend revenue sharing to school districts;
- (3) repeal those features of present categorical aid programs that impede the fiscal equalization of state finance systems, particularly in the impact aid and handicapped aid programs; and
- (4) support funding of basic educational research

aimed at identifying more productive educational programs which state and local decisionmakers can fund, thus improving the climate for school finance reform.

Local Government Strategy. Finally, local governments can cooperate in improving the fiscal equity of future school finance laws by:

- (1) foregoing disqualifying state aid, in the case of wealthy districts, or by taking advantage of state aid in the case of poorer districts;
- (2) discouraging the practice of minimum aid payments to all districts regardless of local wealth;
- (3) supporting state tax measures necessary for implementing reform laws and programs; and by
- (4) pushing for state grant programs that will help increase educational productivity in the public schools.

Finally, the general public must also continue to demand more fairness in its school finance policies. It must support the concepts of fiscal redistribution contained in the new finance laws. It must back state policies that will provide more funds for the educationally disadvantaged. And finally it must continue to demand more funding for those educational programs that hold the promise of raising the economic efficiency and educational effectiveness of local schools. New state finance laws in the future can be designed with all these ends in mind only with continued public support and cooperation from federal and local governments. Without such support, the future of state school finance reform appears bleak indeed.

APPENDIX A

**Selected Statistical Data
on
School Finance Revisions
for
Florida, Illinois, Kansas, Michigan, New Mexico,
Utah and Wisconsin**

from
NCSL-LEAP Data Files

TABLE F-1
FLORIDA SCHOOL DISTRICTS: CURRENT EXPENDITURE NET OF AUXILIARY SERVICES
PER ADM FY 1974 BY RANK OF CURRENT EXPENDITURE NET OF AUXILIARY SERVICES PER ADM FY 1973

Non-cumulative Percent of School Districts by Rank Order (N = 87)	FY 1973		FY 1974		Average ADM FY 1974
	Amount	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$ 800	12.8%	\$ 876	12.9%	2267
0 to 10 %	859	5.6	750	7.3	12055
11 to 25	726	2.1	736	5.5	13058
26 to 50	760	1.4	848	3.9	28742
51 to 75	813	2.8	883	6.8	24909
76 to 90	884	2.1	978	6.3	37231
91 to 100	1028	10.2	1066	17.5	4344

*State of Florida, Commissioner of Education, Pupil, Personnel and Financial Data, Report for FY 73 and FY 74. **Current Expenditure includes the following functions: day school administration, instruction, plant operation, plant maintenance, and fixed charges.

**Coefficient of variation.

TABLE F-2
FLORIDA SCHOOL DISTRICTS: CURRENT EXPENDITURE NET OF AUXILIARY SERVICES PER ADM FY 1973 AND
FY 1974 BY RANK OF EQUALIZED VALUATION PER ADM FY 1974

Non-cumulative Percent of School Districts by Rank Order (N = 87)	FY 1973		FY 1974		Average ADM FY 1974
	Amount	Vari- ation Index***	Amount	Vari- ation Index***	
Total	\$43289	\$800	\$ 876	12.9%	22767
0 to 10 %	16872	748	794	14.6	8649
11 to 25	24496	820	890	21.0	8059
26 to 50	31714	788	874	6.1	26226
51 to 75	44735	780	828	8.5	16556
76 to 90	64510	821	930	8.1	57341
91 to 100	98764	886	1002	11.4	17261

*State of Florida, Commissioner of Education, Pupil, Personnel and Financial Data, Report for the Fiscal Year, 1973, 1974. **Current Expenditure includes the following functions: day school administration, instruction, plant operation, plant maintenance, fixed charges.

**State of Florida, Office of the Auditor General certified ratios of the 1973 non-exempt real property assessed ratios to full value.

***Coefficient of variation.

A-1

TABLE F-3

FLORIDA SCHOOL DISTRICTS: STATE OPERATING AID PER ADM FY 74 BY DECILE OF STATE OPERATING AID PER ADM FY 1973

Non-Cumulative Percent of School Districts by Rank (N = 87)	FY 1973			FY 1974		
	Amount	Vari- ation Index**		Amount	Vari- ation Index**	Average ADM FY 1974
Total	\$504	20.0%		5525	28.2%	22767
0 to 10%	343	9.3		254	74.0	34325
11 to 25	414	3.4		425	19.3	37817
26 to 50	482	3.7		548	9.0	24478
51 to 75	528	2.8		581	12.3	23978
76 to 90	581	3.3		621	7.2	8606
91 to 100	715	13.4		680	23.8	3186

*State of Florida, Commissioner of Education, *Publ. Personnel and Financial Data*, Report for FY 1973 and FY 1974. FY 1974 is State Foundation Program exclusive of capital outlay, debt service and transportation aid. FY 1973 is total State FTE allocation less homestead exemption, tax loss, occupational specialist allocation, elementary counselor allocation and transportation.

**Coefficient of variation.

TABLE F-4

FLORIDA SCHOOL DISTRICTS: STATE OPERATING AID PER ADM FY 1973 AND FY 1974 BY RANK OF EQUALIZED VALUATION 1973 PER ADM 1974

Non-Cumulative Percent of School Districts by Rank Order (N = 87)	FY 1973			FY 1974		
	Average Equalized Valuation 1973 Per ADM FY 1974**	Amount	Vari- ation Index***	Amount	Vari- ation Index***	Average ADM FY 1974
Total	\$43289	5504	20.0%	5525	28.2%	22767
0 to 10%	16872	578	12.3	658	7.8	8640
11 to 25	24496	577	1.4	844	18.2	4059
26 to 50	31714	536	9.0	585	9.5	26226
51 to 75	44735	502	21.5	507	12.4	18558
76 to 90	64510	431	11.8	427	20.1	57341
91 to 100	98784	339	10.6	219	80.8	17261

*State of Florida, Commissioner of Education, *Publ. Personnel and Financial Data*, Report for FY 1973 and FY 1974. FY 1974 is state foundation program exclusive of capital outlay, debt service and transportation aid. FY 1973 is total state FTE allocation less homestead exemption, tax loss, occupational specialist allocation, elementary counselor allocation, and transportation.

**State of Florida, Office of the Auditor General, *Certified Ratios of the 1973 Non-Exempt Real Property Assessment Ratio to Full Value*.

***Coefficient of variation.

TABLE F-5

FLORIDA SCHOOL DISTRICTS: SCHOOL TAX RATES, FY 1974 BY RANK OF SCHOOL TAX RATES, FY 1973

Non-Cumulative Percent of School Districts by Rank Order (N = 87)	FY 1973			FY 1974		
	Amount	Vari- ation Index***		Amount	Vari- ation Index***	Average ADM FY 1974
Total	\$ 9.47	9.5%		99.24	11.8%	22767
0 to 10%	7.45	7.2		8.10	15.2	2578
11 to 25	8.59	4.1		9.00	18.3	10620
26 to 50	9.73	3.8		9.33	10.3	23601
51 to 75	10.00	0.0		9.67	8.0	36825
76 to 90	10.00	0.0		9.35	12.4	20581
91 to 100	10.14	3.4		9.31	11.9	9632

*State of Florida, Commissioner of Education, *Publ. Personnel and Financial Data* Report for FY 1974.

**State of Florida, Office of the Auditor General, *Certified Ratios of the 1973 non-exempt real property assessment ratios to full value*.

***Coefficient of variation.

A-2

TABLE F-6
FLORIDA SCHOOL DISTRICTS: SCHOOL OPERATING TAX RATES FY 1973 AND FY 1974 BY RANK OF EQUALIZED VALUATION 1973 PER ADM 1974

Non-Cumulative Percent of School Districts by Rank Order (N = 87)	Average Equalized Valuation 1973 Per ADM FY 1974**	Average Operating School Tax Rate*				Average ADM FY 1974
		FY 1973		FY 1974		
		Amount	Vari- ation Index***	Amount	Vari- ation Index***	
Total	\$43289	\$9.47	9.5%	\$9.24	11.9%	22767
0 to 10%	18872	9.54	8.5	9.86	1.7	8649
11 to 25	24496	8.81	14.9	9.19	12.7	6059
26 to 50	31714	9.60	8.7	9.19	14.9	26226
51 to 75	44735	9.54	12.3	9.10	8.9	16556
76 to 90	64510	9.78	7.6	9.53	5.6	57341
91 to 100	98764	9.38	8.5	8.67	16.7	17261

*State of Florida, Commissioner of Education, Pupil, Personnel and Financial Data, Report for the fiscal year, 1974.

**State of Florida, Office of the Auditor General, Certified Ratios of the 1973 Non-Exempt Real Property Assessment Ratio to Full Value.

***Coefficient of variation.

TABLE F-7
FLORIDA SCHOOL DISTRICTS: EQUALIZED VALUATION 1972 PER ADM FY 1973 AND EQUALIZED VALUATION 1973 PER ADM FY 1974

Non-Cumulative Percent of School Districts by Rank (N = 87)	Average Equalized Valuation per ADM*			Average ADM		
	FY 1973		FY 1974		FY 1974	
	Amount	Vari- ation Index**	Amount	Vari- ation Index**	Amount	Vari- ation Index**
Total	\$34258	48.2%	\$43289	54.1%	22767	
0 to 10%	14131	2.4	18872	15.2	8649	
11 to 25	20865	7.1	24496	7.5	6059	
26 to 50	25860	7.5	31714	6.7	26226	
51 to 75	36711	12.8	44735	12.6	16556	
76 to 90	49919	8.9	64510	10.7	57341	
91 to 100	70778	19.4	98764	16.9	17261	

*State of Florida, Office of the Auditor General, Certified Ratios of the 1972 and 1973 Non-Exempt Real Property Assessment Ratio to Full Value.

**Coefficient of variation.

TABLE I-1
ILLINOIS UNIFIED SCHOOL DISTRICTS: CURRENT EXPENDITURE NET OF TRANSPORTATION PER ADA FY 1974 BY DECILE OF CURRENT EXPENDITURE NET OF TRANSPORTATION PER ADA FY 1973*

Average Current Expenditure Net of Transportation per ADA					
FY 1973			FY 1974		
Decile (N = 436)	Amount	Vari- ation Index**	Amount	Vari- ation Index**	Average ADA FY 1974
Total	\$ 992	15.2%	\$1,079	16.2%	2,844
1	808	3.8	898	8.2	1,275
2	58	1.0	939	5.3	1,339
3	890	1.0	971	5.2	1,447
4	916	6.9	990	5.4	1,446
5	946	1.4	1,042	4.8	1,478
6	963	0.9	1,081	6.2	2,087
7	1,011	0.9	1,099	7.1	1,502
8	1,053	1.8	1,139	7.5	1,981
9	1,114	2.0	1,201	5.4	3,293
10	1,291	14.3	1,383	18.7	11,411

*State of Illinois, Office of Public Instruction, special computer tape tabulation for NCBL of Annual Financial Report and related data. *Current expenditure includes current outlays for the following functions in all funds except transportation fund: administration, instruction, attendance, health, operation, maintenance, fixed charges and textbooks.

**Coefficient of variation.

A-3

TABLE I-2

ILLINOIS UNIFIED SCHOOL DISTRICTS: CURRENT EXPENDITURE NET OF TRANSPORTATION PER ADA FY 1973
AND FY 1974 BY DECILE OF ASSESSED VALUATION 1972 PER ADA FY 1974*

Decile (N = 438)	Average Assessed Valuation 1972 per ADA FY 1974	Average Current Expenditure Net of Transportation per ADA			Average ADA FY 1974
		FY 1973	Vari- ation Index	FY 1974	
		Amount		Amount	
Total	\$26,707	\$ 992	15.2%	\$1,079	2,844
1	10,193	910	11.2	999	1,821
2	15,182	912	10.4	1,001	2,140
3	17,900	923	8.3	998	2,485
4	20,586	936	16.2	1,001	2,575
5	22,732	969	12.4	1,058	2,185
6	25,025	979	10.4	1,085	2,560
7	27,955	1,030	12.7	1,110	12,638
8	31,698	1,035	9.6	1,118	920
9	37,227	1,038	10.6	1,134	665
10	54,687	1,162	20.1	1,290	585

*State of Illinois, Office of Public Instruction, special computer tape tabulation for NCSE of Annual Financial Report and related data. Current expenditure includes current outlays for the following functions in all funds except transportation: administration, instruction, attendance, health, operation, maintenance, fixed charges, and textbooks.

**Coefficient of variation.

TABLE I-3

ILLINOIS UNIFIED SCHOOL DISTRICTS: STATE GENERAL AID PER ADA FY 1974 BY DECILE OF STATE GENERAL
AID PER ADA FY 1973*

Decile (N = 438)	FY 1973	Average State General Aid per ADA			Average ADA FY 1974
		Vari- ation Index**		FY 1974	
	Amount		Amount		
Total	\$410	31.7%	\$407	38.6%	2,844
1	150	24.6	145	35.1	562
2	266	9.8	229	34.1	844
3	332	4.5	316	36.1	1,259
4	370	2.7	420	19.2	1,124
5	403	2.2	448	16.2	1,817
6	440	2.2	454	14.7	13,752
7	466	1.7	501	12.6	3,454
8	498	1.6	536	12.7	2,835
9	539	2.6	626	13.1	1,669
10	604	6.1			

*State of Illinois, Office of Public Instruction, special computer tape tabulation for NCSE of Annual Financial Report and related data. State General Aid includes all State General Aid receipts regardless of local fund allocation.

**Coefficient of variation.

TABLE I-4

ILLINOIS UNIFIED SCHOOL DISTRICTS: STATE GENERAL AID PER ADA FY 1973
AND FY 1974 BY DECILE OF ASSESSED VALUATION 1972 PER ADA FY 1974*

Decile (N = 438)	Average Assessed Valuation 1972 per ADA FY 1974	Average State General Aid per ADA				Average ADA FY 1974
		FY 1973	Varia- tion Index**	FY 1974	Varia- tion Index**	
		Amount		Amount		
Total	\$26,707	\$410	31.7%	\$407	38.6%	2,844
1	10,193	598	7.4	650	10.6	1,821
2	15,182	530	9.1	548	12.4	2,140
3	17,900	500	7.4	507	8.9	2,485
4	20,566	485	12.3	475	10.1	2,575
5	22,732	450	8.9	449	12.2	2,185
6	25,025	418	10.6	412	13.3	2,560
7	27,955	384	8.9	384	14.6	12,838
8	31,698	335	12.5	312	18.3	920
9	37,227	282	20.6	234	26.9	865
10	54,687	174	33.9	139	32.3	585

*State of Illinois, Office of Public Instruction, special computer tabulation for NCSEL of Annual Financial Report and related data. "State General Aid" includes all State General Aid receipts regardless of local fund allocation.

**Coefficient of variation.

TABLE I-5

ILLINOIS UNIFIED SCHOOL DISTRICTS: SCHOOL OPERATING TAX RATES FY 1974
BY DECILE OF SCHOOL OPERATING TAX RATES FY 1973

Average School Operating Tax Rate per \$1000 Assessed Valuation

Decile (N = 438)	Amount	Average School Operating Tax Rate per \$1000 Assessed Valuation				Average ADA FY 1974
		FY 1973	Varia- tion Index**	FY 1974	Varia- tion Index**	
		Amount		Amount		
Total	\$27.50	24.5%		\$25.93	24.1%	2,844
1	18.47	10.6		22.19	33.6	1,046
2	21.88	2.7		23.08	20.9	1,264
3	23.23	1.6		25.13	23.9	12,537
4	24.50	1.3		25.08	23.1	1,153
5	25.46	1.1		24.61	18.3	2,281
6	26.51	1.7		25.86	21.7	1,553
7	28.04	1.5		26.74	20.2	1,571
8	29.98	2.7		27.17	19.8	1,888
9	33.19	4.4		28.90	26.7	2,274
10	41.75	13.4		29.90	18.7	2,866

*State of Illinois, Office of Public Instruction, special computer tabulation for NCSEL of Annual Financial Report and related data. The Operating tax rate for FY 1973 was computed by dividing the sum (revised) of all 1972 taxes received after June 30, 1972, and all 1973 taxes received before July 1, 1973, by 1971 assessed valuation. The operating tax rate for FY 1974 was computed by dividing the sum of all 1973 taxes received after June 30, 1973, and all 1974 taxes received before July 1, 1974, by 1972 assessed valuation.

**Coefficient of variation.

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TABLE I-6

ILLINOIS UNIFIED SCHOOL DISTRICTS: SCHOOL OPERATING TAX RATES FY 1973 AND FY 1974
BY DECILE OF ASSESSED VALUATION 1972 PER ADA FY 1974

BY DECILE OF ASSESSED VALUATION*						
Decile (N = 438)	Average Assessed Valuation 1972 per ADA FY 1974	Average School Operating Tax Rate Per \$1,000 Assessed Valuation*			Average ADA FY 1974	
		FY 1973		FY 1974		
		Amount	Vari- ation Index**	Vari- ation Index**		
				Amount		
Total	\$26,707	\$27.50	24.5%	\$25.93	24.1%	2,844
1	10,193	28.77	25.2	28.39	25.3	1,821
2	15,182	29.42	26.5	28.39	19.2	2,140
3	17,900	28.08	25.3	25.04	19.6	2,485
4	20,566	28.42	29.6	26.94	21.2	2,575
5	22,732	29.42	27.9	27.49	27.8	2,185
6	25,025	28.36	18.2	26.02	24.4	12,638
7	27,955	27.53	23.0	26.65	22.3	920
8	31,898	26.77	16.4	26.04	26.1	665
9	37,227	25.30	17.7	23.78	24.8	585
10	54,887	24.35	21.4	23.01	22.4	

*Source: Illinois State Board of Education, Annual Financial Report and related data. The operating tax rate for each decile is based on the assessed value as of January 1, 1973.

*State of Illinois, Office of Public Instruction, special computer tabulation for NCBSL of Annual Financial Report and related data. The operating tax rate for FY 1973 was computed by dividing the sum (revised) of all 1972 taxes received after June 30, 1972, and all 1973 taxes received before July 1, 1973, by 1971 assessed valuation. The operating tax rate for FY 1974 was computed by dividing the sum of all 1973 taxes received after June 30, 1973 and all 1974 taxes received before July 1, 1974, by 1972 assessed valuation.

**Coefficient of variation.

TABLE I-7

ILLINOIS UNIFIED SCHOOL DISTRICTS: ASSESSED VALUATION 1972 PER ADA FY 1974 AND
ASSESSED VALUATION 1971 PER ADA FY 1973*

Average Assessed Valuation						
1971 per ADA, FY 1973			1972 per ADA, FY 1974			Average ADA FY 1974
Decile (N = 438)	Amount	Vari- tion Index**	Amount	Vari- tion Index**		
Total	\$25,860	50.1%	\$26,707	51.2%		2,844
1	9,987	22.7	10,193	22.3		1,821
2	14,721	7.5	15,182	7.8		2,140
3	17,806	3.6	17,900	3.2		2,485
4	20,011	2.8	20,568	3.5		2,575
5	21,987	3.0	22,732	2.8		2,185
6	24,411	2.4	25,025	2.8		2,760
7	27,133	4.4	27,955	4.1		12,638
8	30,738	5.1	31,898	3.8		920
9	35,918	20.0	37,227	5.9		665
10	52,214		54,887	36.2		585

Source: 1973 Annual Financial Report and related data.

*State of Illinois, Office of Public Instruction, special computer tabulation for NCBSL of Annual Financial Report and related data.

**Coefficient of variation.

TABLE I-8

ILLINOIS UNIFIED SCHOOL DISTRICTS: WEIGHTED PUPILS RELATIVE TO UNWEIGHTED PUPILS FY 1973
AND FY 1974 BY DECILE OF ASSESSED VALUATION 1972 PER PUPIL FY 1974

Decile (N = 438)	Average Assessed Valuation 1972 per ADA, FY 1974	Weighted Pupils Relative to Unweighted Pupils*				Average ADA FY 1974
		FY 1973	Varia- tion Index**	FY 1974	Varia- tion Index**	
Total	\$26,707	109.6	3.7%	118.4	7.1%	2,844
1	10,193	109.0	1.3	120.4	12.2	1,821
2	15,182	108.9	2.6	115.0	8.4	2,140
3	17,900	109.4	1.2	114.0	2.8	2,485
4	20,566	110.1	7.3	114.2	3.8	2,575
5	22,732	109.5	1.9	114.7	4.0	2,185
6	25,025	109.2	1.4	114.7	3.4	2,560
7	27,955	109.3	1.7	118.6	6.5	12,638
8	31,888	109.8	1.5	115.3	3.2	920
9	37,227	109.2	2.7	117.1	4.4	665
10	54,687	111.7	7.0	121.4	10.6	565

*State of Illinois, Office of Public Instruction, special computer tabulation for NCBL of Annual Financial Report and related data. "Weighted pupils" in FY 1973 is WADA and in FY 1974 is TWADA. "Unweighted pupils" in both FY 1973 and FY 1974 is ADA.

**Coefficient of variation.

TABLE K-1

KANSAS SCHOOL DISTRICTS: STATE AID PER PUPIL FY 74 BY DECILE OF STATE AID PER PUPIL FY 1973

Average State Aid Per Pupil*					
Decile (N = 318)	FY 1973		FY 1974		Number of Pupils, FY 1974
	Amount	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$211	25.9%	\$336	33.9%	1488
1	92	31.5	131	66.7	420
2	158	7.7	236	52.1	2277
3	187	3.7	287	36.8	2684
5	204	1.8	294	32.7	900
6	216	1.9	331	35.6	1500
7	227	1.3	332	27.4	2875
8	237	1.3	377	17.5	1334
9	245	1.2	370	25.4	7713
10	261	2.3	366	15.9	1207

*State of Kansas, State Department of Education Data Processing Division.

**Coefficient of variation.

TABLE K-2

KANSAS SCHOOL DISTRICTS: STATE AID PER PUPIL FY 1973 AND FY 1974 BY DECILE OF ADJUSTED
VALUATION PER PUPIL

Decile (N = 318)	Adjusted Valuation Per Pupil FY 1974	Average State Aid Per Pupil*				Average Number of Pupils 1974
		FY 1973	Varia- tion Index**	FY 1974	Varia- tion Index**	
Total	33431	\$211	25.9%	\$336	33.9%	1488
1	11252	232	15.1	434	16.6	3186
2	16713	235	18.3	416	14.4	4087
3	18185	231	15.8	378	21.4	2820
4	23134	232	12.9	368	18.2	1482
5	26433	247	16.6	367	22.9	776
6	28606	223	18.6	343	23.2	618
7	35051	217	18.1	314	25.2	588
8	41526	208	22.1	238	34.7	508
9	52760	187	27.5	110	57.3	305
10	78722	123	51.2	N/C	N/C	378

*State of Kansas, Department of Education Data Processing Division. Includes transportation aid.

**Coefficient of variation.

TABLE K-3
KANSAS SCHOOL DISTRICTS: GENERAL SCHOOL TAX RATE FY 1974 BY DECILE OF GENERAL SCHOOL TAX RATE, FY 1973

Decile (N = 310)	FY 1973		FY 1974		Average Number of Pupils, FY 1974
	Amount	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$22.42	38.4%	\$22.22	23.2%	1488
1	10.07	23.4	20.38	20.5	548
2	14.80	6.3	23.19	22.5	745
3	17.12	2.3	21.53	21.8	804
4	18.96	2.7	22.53	24.7	711
5	20.68	2.6	24.87	19.4	867
6	22.49	2.5	23.61	24.1	875
7	24.19	1.9	21.08	25.9	1631
8	25.94	2.3	21.02	25.9	1665
9	29.43	5.8	20.67	27.9	1059
10	40.67	21.4	23.61	49.9	5972

*State of Kansas, Department of Education Data Processing Division.
 **Coefficient of variation.

TABLE K-4
KANSAS SCHOOL DISTRICTS: SCHOOL GENERAL TAX RATES FY 1973 AND FY 1974 BY DECILE OF ADJUSTED VALUATION PER PUPIL FY 1974

Decile (N = 310)	FY 1973		FY 1974		Average Number of Pupils FY 1974
	Average Adjusted Valuation Per Pupil FY 1974	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$33431	38.4%	\$22.22	28.2%	1488
1	11252	34.25	19.11	43.5	3186
2	15713	29.75	20.82	31.6	4037
3	19195	24.99	22.09	40.9	2920
4	23134	23.29	19.42	19.7	1492
5	26433	20.64	21.10	22.4	776
6	29806	20.99	21.74	25.4	816
7	35051	20.01	21.77	17.2	556
8	41526	19.48	24.96	16.6	508
9	52760	18.00	27.43	14.1	305
10	78722	12.80	23.80	25.6	378

*State of Kansas, Department of Education Data Processing Division.
 **Coefficient of Variation.

TABLE K-5
KANSAS SCHOOL DISTRICTS: ADJUSTED VALUATION PER PUPIL FY 1973 AND ADJUSTED VALUATION PER PUPIL FY 1974

Decile (N = 310)	FY 1973		FY 1974		Average Number of Pupils FY 1974
	Amount	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$29470	60.3%	\$33431	61.0%	1488
1	10381	18.2	11252	17.2	3186
2	14333	4.7	15713	4.6	4037
3	17136	5.6	19195	5.5	2920
4	20145	6.0	23134	5.6	1492
5	23406	3.3	26433	3.2	776
6	26521	3.4	29806	4.2	816
7	30867	4.9	35051	4.9	556
8	36498	5.9	41526	5.6	508
9	46628	7.0	52760	9.4	305
10	68165	30.0	78722	27.0	378

*State of Kansas, Department of Education Data Processing Division.
 **Coefficient of variation.

A-8

TABLE M-1
MICHIGAN K-12 SCHOOL DISTRICTS: CURRENT EXPENDITURE NET OF TRANSPORTATION PER MEMBER FY 1974
BY DECILE OF CURRENT EXPENDITURE NET OF TRANSPORTATION PER MEMBER FY 1973

Decile (N = 517)	FY 1973			FY 1974		
	Amount	Vari- Non Index**		Amount	Vari- Non Index**	Average Membership FY 1974 ¹
Total	\$ 987	36.0%		\$1081	19.8%	4016
1	788	3.9		913	8.8	2595
2	640	1.1		938	4.5	2255
3	870	0.9		963	4.0	2771
4	897	0.8		998	4.9	2840
5	923	0.9		1022	4.3	3013
6	950	1.1		1057	6.2	3525
7	983	0.9		1099	4.5	3584
8	1023	1.3		1117	5.5	9201
9	1081	2.3		1198	5.3	5521
10	1446	63.0		1453	28.4	4926

¹Includes summer school expense, but excludes all debts service and capital outlay. Source items 2100, 1100, 1200, 1300, 1400, 2200, 2300, 2500, 2600, 2700 of Annual School District Financial Report; divided by membership.
²K to 12 membership for aid purpose enrolled fourth Friday after Labor Day. FTE part-time pupils. Source: Fourth Friday Membership Report, 1972-73 and 1973-74.
 **Coefficient of variation.

TABLE M-2
MICHIGAN K-12 SCHOOL DISTRICTS: CURRENT EXPENDITURE NET OF TRANSPORTATION PER MEMBER
FY 1973 AND FY 1974 BY DECILE OF STATE EQUALIZED VALUATION 1974 PER MEMBER FY 1974

Decile (N = 517)	FY 1973			FY 1974		
	Average State Equalized Valuation 1974 Per Member FY 1974 ¹	Amount	Vari- Non Index**	Amount	Vari- Non Index**	Average Membership FY 1974 ¹
Total	\$22513	\$ 987	36.0%	\$1081	19.8%	4016
1	10336	909	12.9	1003	11.3	2188
2	13001	891	8.3	993	9.3	2277
3	14710	896	9.0	1003	7.9	2233
4	16147	911	8.3	1016	10.2	2850
5	17571	959	13.3	1069	13.6	3824
6	19491	959	13.7	1053	12.6	4232
7	22061	967	12.7	1074	12.5	8196
8	25156	986	14.9	1094	14.9	6823
9	30972	1031	12.5	1118	11.9	4105
10	51718	1314	71.8	1348	32.9	3161

¹Special tabulation for NCES by Michigan Department of Education, May 1975, divided by membership.
²See footnote 1, Table M-1.
³See footnote 2, Table M-1.
 **Coefficient of variation.

TABLE M-3
MICHIGAN K-12 SCHOOL DISTRICTS: STATE OPERATING AID PER MEMBER FY 1974 BY DECILE OF STATE
OPERATING AID PER MEMBER FY 1973

Decile (N = 517)	FY 1973		FY 1974		Average Membership FY 1974 ¹
	Amount	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$430	38.0%	\$475	40.8%	4018
1	94	80.8	104	14.7	4416
2	264	11.7	253	24.9	4073
3	341	4.4	357	15.7	5559
4	390	3.6	438	11.8	5199
5	437	2.5	495	7.3	9459
6	472	1.9	523	12.4	3572
7	502	2.0	569	6.3	2638
8	538	1.7	594	8.8	2177
9	572	1.9	643	8.2	2208
10	645	7.9	717	19.2	1286

¹State School Aid, Item 0312 of Annual School District Financial Report, divided by membership.

²See footnote 2, Table M-1.

**Coefficient of variation.

TABLE M-4
MICHIGAN K-12 SCHOOL DISTRICTS: STATE OPERATING AID PER MEMBER FY 1973 AND FY 1974 BY DECILE OF
STATE EQUALIZED VALUATION 1974 PER MEMBER FY 1974

Decile (N = 517)	Average State Equalized Valuation FY 1974 ¹ per Member,		FY 1973		FY 1974		Average Membership FY 1974 ²
	Amount	Vari- ation Index**	Amount	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$22513	\$430	36.0	\$475	40.8%	4018	
1	10338	613	9.8	691	19.7	2188	
2	13001	572	7.5	639	11.9	2277	
3	14710	535	9.0	611	10.6	2233	
4	16147	509	7.7	576	10.7	2858	
5	17571	495	15.8	568	18.1	3824	
6	19431	448	15.2	500	11.2	4232	
7	22081	404	10.8	450	11.8	8796	
8	25156	356	12.3	379	16.4	6823	
9	30972	273	22.0	256	24.6	4105	
10	51718	132	74.0	104	79.8	3181	

¹See footnote 1, Table M-2.

²See footnote 1, Table M-3.

³See footnote 2, Table M-1.

**Coefficient of variation.

TABLE M-5
MICHIGAN K-12 SCHOOL DISTRICTS: SCHOOL OPERATING TAX RATE FY 1974 BY DECILE OF SCHOOL OPERATING
TAX RATE FY 1973

Decile (N = 517)	Average School Operating Tax Rate per \$1000 State Equalized Valuation ¹			Average School Operating Tax Rate per \$1000 State Equalized Valuation ¹		
	FY 1973	Vari- ation Index**	FY 1974	Vari- ation Index**	Average Membership FY 1974 ³	
Total	\$22.85	20.9%	\$23.43	18.2%	4016	
1	14.98	11.7	18.21	19.9	7043	
2	17.88	3.1	19.83	9.2	1801	
3	19.46	2.4	20.57	8.4	1871	
4	20.64	1.7	21.38	9.1	2200	
5	21.72	1.2	21.94	5.7	2151	
6	22.85	1.5	23.03	7.3	3398	
7	24.06	1.6	24.22	5.0	3437	
8	25.58	1.9	25.53	5.4	3758	
9	27.76	2.8	27.34	4.4	8423	
10	31.59	6.6	31.35	7.9	7792	

¹Annual School District Financial Report Form B Supplement—Tax Collection Statistics, column 8, line 1 divided by 1974 equalized valuation (SEV) for 1974, and line 4 divided by 1973 SEV for 1973.

²See footnote 2, Table M-1.

³Coefficient of variation.

TABLE M-6
MICHIGAN K-12 SCHOOL DISTRICTS: SCHOOL OPERATING TAX RATE FY 1974 BY DECILE OF
STATE EQUALIZED VALUATION 1974 PER MEMBER FY 1974

Decile (N = 517)	Average School Operating Tax Rate per \$1000 Equalized Valuation ¹			Average School Operating Tax Rate per \$1000 Equalized Valuation ¹		
	FY 1973	Vari- ation Index**	FY 1974	Vari- ation Index**	Average Membership FY 1974 ³	
Total	\$22.85	20.9%	\$23.43	18.2%	4016	
1	21.37	27.1	22.58	20.5	2168	
2	21.73	18.4	22.03	15.9	2267	
3	21.30	18.0	22.26	15.9	2233	
4	22.74	17.4	23.02	15.5	2858	
5	24.81	17.8	24.47	17.2	3824	
6	24.13	21.2	24.29	18.6	4232	
7	23.87	21.4	24.34	18.3	8796	
8	23.84	21.8	24.22	19.9	8823	
9	23.02	20.1	24.12	17.5	4106	
10	22.09	19.8	23.04	19.0	3181	

¹See footnote 1, Table M-2.

²See footnote 1, Table M-5.

³See footnote 2, Table M-1.

⁴Coefficient of Variation.

TABLE M-7
MICHIGAN K-12 SCHOOL DISTRICTS: STATE EQUALIZED VALUATION 1974 PER MEMBER FY 1974 BY DECILE OF
STATE EQUALIZED VALUATION 1973 PER MEMBER FY 1973

Average State Equalized Valuation Per Member ¹					
Decile (N = 517)	FY 1973		FY 1974		Average Membership FY 1974 ²
	Amount	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$20899	81.3%	\$22513	82.2%	4016
1	9348	17.8	10336	18.1	2186
2	11803	3.4	13001	4.0	2277
3	13271	3.8	14710	3.8	2233
4	14733	2.2	16147	2.2	2858
5	15889	2.5	17571	2.4	3624
6	17607	3.5	19491	3.8	4232
7	20027	3.9	22081	3.8	8798
8	22974	4.8	25156	4.7	6823
9	28373	7.6	30972	8.1	4105
10	50852	71.7	51718	42.7	3161

¹See footnote 1, Table M-2.

²See footnote 2, Table M-1.

**Coefficient of variation.

TABLE N-1
NEW MEXICO SCHOOL DISTRICTS: CURRENT EXPENDITURE NET OF TRANSPORTATION PER ADM FY 1975
BY RANK OF CURRENT EXPENDITURE NET OF TRANSPORTATION PER ADM FY 1974

Current Expenditure Per ADM ¹					
Non-Cumulative Percent of School Districts by Rank (N = 88)	FY 1974		FY 1975		Average ADM FY 1975
	Amount	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$689	23.8%	\$1022	25.0%	3116
0 to 10%	687	4.2	803	5.2	5561
11 to 25	722	1.1	844	3.7	10182
26 to 50	765	2.2	871	6.4	2177
51 to 75	872	7.5	828	24.9	1557
76 to 90	1105	4.9	1282	11.0	647
91 to 100	1358	9.1	1586	7.3	162

¹State of New Mexico, Department of Finance and Administration Statistics: Public School Finance, 1973-74.

**Coefficient of variation.

TABLE N-2
NEW MEXICO SCHOOL DISTRICTS: CURRENT EXPENDITURE NET OF TRANSPORTATION PER ADM FY 1974 AND
FY 1975 BY RANK OF ASSESSED VALUATION 1973 PER ADM FY 1973

Average Expenditure Net of Transportation Per ADM ¹					
Non-Cumulative Percent of School Districts by Rank (N = 88)	Average Assessed Valuation 1973 per ADM FY 1975	FY 1974		FY 1975	
		Amount	Vari- ation Index**	Amount	Vari- ation Index**
Total	\$18087	\$ 889	23.8%	\$1022	24.9%
0 to 10%	3863	760	5.5	889	5.9
11 to 25	6721	776	10.8	847	5.7
26 to 50	9768	805	18.1	922	12.0
51 to 75	16925	908	21.6	1067	22.5
76 to 90	27811	1032	26.6	1219	28.4
91 to 100	57861	1126	20.2	1277	21.8

¹State of New Mexico, Department of Finance and Administration, Statistics: Public School Districts, 1973-74. Includes the following functions: Administration, instruction, attendance, health, plant operation, plant maintenance and fuel charges.

**Coefficient of variation.

TABLE N-3
NEW MEXICO SCHOOL DISTRICTS: STATE BASIC PROGRAM AID PER ADM FY 1975 BY RANK OF STATE
OPERATING AID PER ADM FY 1974

Non-Cumulative Percent of School Districts by Rank (N = 88)	Basic Program Aid Per ADM*				Average ADM FY 1975
	FY 1974	Vari- ation Index**	FY 1975	Vari- ation Index**	
Total	\$566	30.4%	\$ 766	33.9%	3116
0 to 10%	456	9	630	13.0	14368
11 to 25	463	2	617	25.4	6053
26 to 50	475	1.3	682	18.0	2189
51 to 75	513	4.3	670	31.8	619
76 to 90	693	11.5	993	21.2	249
91 to 100	996	12.2	1233	14.6	128

*State of New Mexico, Department of Finance and Administration, Statistics: Public School Districts, 1973-74.
**Coefficient of variation.

TABLE N-4
NEW MEXICO SCHOOL DISTRICTS: STATE BASIC PROGRAM AID PER ADM FY 1974 AND FY 1975
BY RANK OF ASSESSED VALUATION 1973 PER ADM FY 1975

Non-Cumulative Percent of School Districts by Rank (N = 88)	Average Basic Program Aid Per ADM*				Average ADM FY 1975
	FY 1974	Vari- ation Index**	FY 1975	Vari- ation Index**	
Total	\$ 18067	30.4%	\$766	33.9%	3116
0 to 10%	3863	478	753	12.4	2079
11 to 25	6721	470	677	15.5	5209
26 to 50	9766	518	764	23.4	6029
51 to 75	16925	597	858	33.0	1591
76 to 90	27811	690	859	42.7	1067
91 to 100	57861	959	557	59.8	693

*State of New Mexico, Department of Finance and Administration, Statistics: Public School Districts, 1973-74.
**Coefficient of variation.

TABLE N-5
NEW MEXICO SCHOOL DISTRICTS: DISTRICT LEVY FY 1975 BY RANK OF DISTRICT LEVY FY 1974

Non-Cumulative Percent of School Districts by Rank (N = 88)	Average District Levy Per \$1000 Assessed Valuation*				Average ADM FY 1975
	FY 1974	Vari- ation Index**	FY 1975	Vari- ation Index**	
Total	\$4.12	19.2%	\$10.73	12.0%	3116
0 to 10%	2.22	0.0	9.17	8.1	4839
11 to 25	3.67	0.0	10.45	10.1	9516
26 to 50	4.45	0.0	11.15	0.0	1488
51 to 75	4.45	0.0	10.70	19.9	1655
76 to 90	4.45	0.0	11.15	0.0	1809
91 to 100	4.57	5.3	11.15	0.0	1782

*State of New Mexico, Department of Finance and Administration, Statistics: Public School Finance, 1973-74.
**Coefficient of variation.

TABLE N-8
NEW MEXICO SCHOOL DISTRICTS: DISTRICT LEVY FY 1974 AND FY 1975
BY RANK OF ASSESSED VALUATION 1973 PER ADM FY 1973

Non-Cumulative Percent of School Districts by Rank (N = 88)	District Levy Per \$1000 Assessed Valuation*				Average ADM FY 1975
	Average Assessed Valuation 1973 Per ADM FY 1973	Amount	Vari- ation Index**	Amount	
Total	\$18067	\$4.12	19.2%	\$10.73	3116
0 to 10%	3863	4.45	0.0	11.15	2079
15 to 25	6721	3.94	24.8	9.87	5209
26 to 50	9768	4.04	21.7	10.74	6029
51 to 75	16925	4.15	18.9	10.98	1591
76 to 90	27811	3.66	25.2	10.64	1067
91 to 100	57861	4.57	5.3	11.15	693

*State of New Mexico, Department of Finance and Administration, Statistics: Public School Districts, 1973-74.

**Coefficient of variation.

TABLE N-7
NEW MEXICO SCHOOL DISTRICTS: AVERAGE ASSESSED VALUATION 1972 PER ADM FY 1974
AND AVERAGE ASSESSED VALUATION 1973 PER ADM FY 1975

Non-Cumulative Percent of School Districts by Rank (N = 88)	Average Assessed Valuation Per ADM*		FY 1975		Average ADM FY 1975
	FY 1974	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$16207	93.2%	\$18067	96.4%	3116
0 to 10%	3104	29.2	3663	33.2	2079
11 to 25	5379	84.1	6721	10.7	5209
26 to 50	9267	14.7	9768	18.0	6029
51 to 75	14950	14.4	16925	17.0	1591
76 to 90	24942	9.8	27811	11.1	1067
91 to 100	50823	43.9	57861	45.0	693

*State of New Mexico, Department of Finance and Administration, Statistics: Public School Districts, 1973-74.

**Coefficient of variation.

TABLE U-1
UTAH SCHOOL DISTRICTS: STATE AND LOCAL CURRENT REVENUES PER ADA FY 1974
BY RANK OF STATE AND LOCAL CURRENT REVENUES PER ADA FY 1973

Non-Cumulative Percent of School Districts by Rank (N = 40)	Current Revenues Per ADA*		FY 1974		Average ADA FY 1974
	FY 1973	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$ 701	20.5%	\$ 782	23.4%	6572
0 to 10%	565	5.8	625	10.6	13819
11 to 25	593	0.8	674	1.9	7264
26 to 50	619	1.9	680	2.9	11264
51 to 75	691	3.6	747	6.7	4601
76 to 90	834	10.3	944	14.5	711
91 to 100	1031	3.9	1203	6.9	280

*State of Utah, State Board of Education, Annual Estimated Minimum School Report of Utah School Districts, 1972-73, 1973-74.

**Coefficient of variation.

A-14

TABLE U-2
UTAH SCHOOL DISTRICTS: STATE AND LOCAL CURRENT REVENUES PER ADA FY 1973 AND FY 1974
BY RANK OF ASSESSED VALUATION 1973 PER ADA FY 1974

State & Local Current Revenues Per ADA*						
Non-Cumulative Percent of School Districts by Rank (N = 68)	Average Assessed Valuation 1973 Per ADA	FY 1973		FY 1974		Average ADA FY 1974
		Amount	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$10217	\$701	20.5%	\$782	23.4%	6572
0 to 10%	4871	613	8.8	690	9.8	14201
11 to 25	6298	598	2.8	674	2.7	14674
26 to 50	8107	577	22.2	634	23.0	3974
51 to 75	10974	670	17.2	740	22.2	4455
76 to 90	14320	753	11.4	842	17.6	5018
91 to 100	18674	806	31.3	924	37.2	910

* Includes State and Local Current Revenues Per ADA for School Districts, 1972-73, 1973-74. Includes during 1972-73.

*State of Utah, State Board of Education, Annual Estimated Minimum School Report of Utah School Districts, 1972-73, 1973-74. Includes during 1972-73. Total local and state contributions, basic board and ruled programs, net of state-supported basic program transportation. Includes during 1973-74. Total local-state amounts, estimated basic and voted state-supported programs.

**Coefficient of variation.

TABLE U-3
UTAH SCHOOL DISTRICTS: STATE BASIC AID NET OF TRANSPORTATION AID PER ADA FY 1973 AND FY 1974
BY RANK OF STATE BASIC AID NET OF TRANSPORTATION PER ADA FY 1973

State Basic Aid Net of Transportation Aid Per ADA*					
Non-Cumulative Percent of School Districts by Rank (N = 68)	FY 1973		FY 1974		Average
		Vari- ation**		Vari- ation**	FY 1974
	Amount		Amount		
Total	\$395	28.8%	\$519	34.7%	6572
0 to 10%	230	19.8	279	37.8	7378
11 to 25	314	7.8	375	14.7	7018
26 to 50	380	4.7	482	7.3	11315
51 to 75	387	4.3	511	18.0	7127
76 to 90	588	10.1	623	17.8	957
91 to 100	642	7.8	930	12.8	290

*State of Utah, State Board of Education, Annual Estimated Minimum School Report of Utah School Districts, 1972-73, 1973-74.

**Coefficient of variation.

TABLE U-4
UTAH SCHOOL DISTRICTS: STATE BASIC AID NET OF TRANSPORTATION AID PER ADA FY 1973 AND FY 1974
BY DECILE OF AVERAGE ASSESSED VALUATION 1974 PER ADA FY 1974

Average State Basic Aid Net of Transportation Aid Per ADA*						
Non-Cumulative Percent of School Districts by Rank (N = 68)	Average Assessed Valuation 1973 Per Pupil	FY 1973		FY 1974		Average ADA FY 1974
		Amount	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$10217	\$395	28.8%	\$519	34.7%	6572
0 to 10%	4871	403	8.9	556	10.4	14201
11 to 25	6298	398	3.0	501	2.4	14674
26 to 50	8107	460	28.0	623	31.1	3974
51 to 75	10974	348	30.4	449	40.1	4455
76 to 90	14320	390	26.7	484	32.8	5018
91 to 100	18674	385	52.2	475	98.1	910

*State of Utah, State Board of Education, Annual Estimated Minimum School Reports of Utah School Districts, 1972-73, 1973-74.

**Coefficient of variation.

A-18

TABLE U-5
UTAH SCHOOL DISTRICTS: TOTAL MAINTENANCE AND OPERATION LEVY FY 1974 BY RANK
OF TOTAL MAINTENANCE AND OPERATION LEVY FY 1973

Average Total Maintenance and Operation Levy Per \$1000 Assessed Valuation*						
Non-Cumulative Percent of School Districts by Rank (N = 40)	FY 1973		FY 1974		Average ADA FY 1974	
	Amount	Vari- ation Index**	Amount	Vari- ation Index**		
Total	\$27.89	13.4%	\$28.47	12.6%		6572
0 to 10%	21.40	11.9	23.92	8.1		1087
11 to 25	24.06	4.5	25.83	4.2		1260
26 to 50	27.50	3.5	28.25	2.2		6817
51 to 75	28.61	1.2	27.69	12.2		5337
76 to 90	31.16	1.3	31.52	6.4		5931
91 to 100	34.36	2.9	34.91	2.8		20965

*State of Utah, State Board of Education, Annual Estimated Minimum School Report of Utah School Districts, 1972-73, 1973-74.
**Coefficient of variation.

TABLE U-6
UTAH SCHOOL DISTRICTS: TOTAL MAINTENANCE AND OPERATION TAX RATES FY 1973 AND FY 1974
BY RANK OF ASSESSED VALUATION 1973 PER ADA FY 1974

Non-Cumulative Percent of School Districts by Rank (N = 40)	Total Maintenance and Operation Tax Rates Per \$1000 Assessed Valuation*					
	FY 1973		FY 1974		Average ADA	
	Average Assessed Valuation 1973 Per ADA	Vari- ation Index**	Amount	Vari- ation Index**	FY 1974	FY 1973
	FY 1974	Amount	Index**	Amount	Index**	Amount
Total	\$102.17	13.4%	\$27.89	12.6%	\$28.47	6572
0 to 10%	48.71	1.7	28.39	1.7	14201	
11 to 25	62.98	8.8	29.35	8.5	14674	
26 to 50	81.07	15.0	29.52	17.4	3974	
51 to 75	109.74	9.4	28.97	8.9	4455	
76 to 90	143.20	15.0	27.29	14.1	5018	
91 to 100	186.74	22.71	16.3	25.12	910	

*State of Utah, State Board of Education, Annual Estimated Minimum School Report of Utah School Districts, 1972-73, 1973-74.
**Coefficient of variation.

TABLE U-7
UTAH SCHOOL DISTRICTS: ASSESSED VALUATION 1972 PER ADA FY 1973 AND ASSESSED VALUATION 1973
PER ADA FY 1974

Non-Cumulative Percent of School Districts by Rank (N = 40)	Average Assessed Valuation Per ADA*					
	FY 1973			FY 1974		
	Amount	Vari- ation Index**		Amount	Vari- ation Index**	Average ADA FY 1974
Total	\$ 9526	43.2%		\$10217	41.3%	6572
0 to 10%	4502	12.2		4871	12.3	14201
11 to 25	5722	6.5		6298	8.2	14674
26 to 50	7508	13.1		8107	11.3	3974
51 to 75	10070	6.0		10974	11.3	4455
76 to 90	13395	9.9		14320	4.8	5018
91 to 100	18141	13.9		18674	15.0	910

*State of Utah, State Board of Education, Annual Estimated Minimum School Report of Utah School Districts, 1972-73, 1973-74.
**Coefficient of variation.

TABLE W-1

WISCONSIN UNIFIED SCHOOL DISTRICTS: CURRENT EXPENDITURE NET OF TRANSPORTATION PER MEMBER
FY 1974 BY DECILE OF CURRENT EXPENDITURE NET OF TRANSPORTATION PER MEMBER FY 1973*

Decile (N = 389)	Average Current Expenditure Net of Transportation per Member FY 1973			Average Current Expenditure Net of Transportation per Member FY 1974		
	Amount	Vari- ation Index**		Amount	Vari- ation Index**	Average Membership for Aid Purposes FY 1974
Total	\$ 791	14.4%		\$ 915	14.1%	2,410
1	651	3.2		761	4.7	1,448
2	689	1.2		809	4.8	1,120
3	716	1.1		829	3.1	1,778
4	741	9.4		862	3.9	1,643
5	762	7.9		891	4.0	1,147
6	785	8.9		907	4.9	2,171
7	805	7.4		932	4.2	1,570
8	838	1.6		962	3.5	3,550
9	896	2.5		1,035	5.9	2,362
10	1,031	13.6		1,171	13.7	7,382

*State of Wisconsin, Department of Public Instruction, Computer tape summary of Annual Report of School Districts, 1973, 1974. *Current expenditure includes the following functions: administration, instruction, attendance services, health services, plant operation, plant maintenance, and food charges.

**Coefficient of variation.

TABLE W-2

WISCONSIN UNIFIED SCHOOL DISTRICTS: CURRENT EXPENDITURE NET OF TRANSPORTATION PER MEMBER
FY 1973 AND FY 1974 BY DECILE OF EQUALIZED VALUATION 1973 PER MEMBER FY 1974*

Decile (N = 389)	Average Current Expenditure Net of Transportation per Member FY 1973			Average Current Expenditure Net of Transportation per Member FY 1974		
	Average Equalized Valuation 1973 per Member FY 1974	Amount	Vari- ation Index**	Amount	Vari- ation Index**	Average Membership for Aid Purposes FY 1974
Total	\$44,601	\$791	14.4%	\$ 915	14.1%	2,410
1	25,625	787	18.9	919	17.1	923
2	30,600	752	10.1	873	11.8	1,322
3	33,921	755	10.2	879	9.0	1,488
4	30,984	771	8.9	888	10.5	1,496
5	40,095	766	11.2	897	11.9	2,420
6	43,395	785	11.5	906	11.1	2,435
7	48,556	799	12.5	921	12.9	5,856
8	50,567	770	8.4	890	8.7	3,116
9	56,553	824	12.7	937	12.8	3,075
10	83,117	900	20.9	1,038	19.9	2210

*State of Wisconsin, Department of Public Instruction, Computer tape summary of Annual Report of School Districts, 1973, 1974. *Current Expenditure includes the following functions: administration, instruction, attendance services, health services, plant operation, plant maintenance and food charges.

**Coefficient of variation.

TABLE W-3

**WISCONSIN UNIFIED SCHOOL DISTRICTS: STATE GENERAL AID PER MEMBER FY 1974
BY DECILE OF STATE GENERAL AID PER MEMBER FY 1973***

Decile (N = 369)	Average State General Aid Per Member FY 1973			FY 1974		
	Amount	Vari- Bon Index**		Amount	Vari- Bon Index**	Average Membership for Aid Purpose FY 1974
Total	\$309	49.4%		\$498	36.1%	2410
1	74	13.5		160	40.6	2903
2	121	21.4		315	17.8	3576
3	192	9.4		401	9.5	6721
4	239	5.4		440	14.1	1980
5	287	5.2		483	7.2	3124
6	339	3.2		540	6.7	1789
7	380	2.7		593	4.9	1832
8	419	2.3		620	5.0	1180
9	463	3.7		863	5.1	1128
10	580	14.8		775	17.0	845

State of Wisconsin, Department of Public Instruction, Computer tape summary of Annual Report of School Districts, 1973, 1974. Member is defined as member for aid purposes.

**Coefficient of variation.

TABLE W-4

**WISCONSIN UNIFIED SCHOOL DISTRICTS: STATE GENERAL AID PER MEMBER FY 1973 AND
FY 1974 BY DECILE OF EQUALIZED VALUATION 1973 PER MEMBER FY 1974***

Decile (N = 369)	Average General Aid per Member FY 1973			FY 1974		
	Average Equalized Valuation FY 1974	Amount	Vari- Bon Index**	Amount	Vari- Bon Index**	Average Membership for Aid Purpose FY 1974
Total	\$44,601	\$309	49.4%	\$498	36.1%	2410
1	25,285	535	23.0	755	17.1	923
2	30,800	467	13.5	694	10.4	1322
3	33,921	413	12.8	620	8.5	1488
4	36,894	378	16.1	568	10.2	1488
5	40,095	346	15.0	547	11.0	2420
6	43,395	283	17.0	485	10.1	2435
7	46,556	247	19.9	452	10.2	5856
8	50,657	186	26.9	385	10.1	3118
9	56,553	147	55.8	325	18.9	3025
10	63,117	77	20.8	154	40.5	2210

*State of Wisconsin, Department of Public Instruction, Computer tape summary of Annual Report of School Districts, 1973, 1974.

**Coefficient of variation.

TABLE W-5

WISCONSIN UNIFIED SCHOOL DISTRICTS: SCHOOL OPERATION TAX LEVY FY 1974 PER \$1000 EQUALIZED VALUATION 1973 BY DECILE OF SCHOOL OPERATION TAX LEVY FY 1973 PER \$1000 EQUALIZED VALUATION 1972*

Decile (N = 388)	FY 1973			FY 1974		
	Amount	Vari- ation Index**		Amount	Vari- ation Index**	Average Membership for All Purposes FY 1974
Total	\$15.31	15.3%		\$11.46	19.5%	2,410
1	11.08	14.3		9.39	22.8	1,298
2	13.19	2.7		10.11	15.0	1,916
3	14.13	1.4		10.72	14.2	1,247
4	14.85	1.0		10.87	16.4	2,152
5	15.06	0.8		11.21	14.2	2,126
6	15.54	0.8		11.65	16.5	2,405
7	15.99	0.9		11.54	12.7	1,404
8	16.61	1.0		12.26	14.3	3,798
9	17.42	1.8		12.64	13.3	2,211
10	19.53	9.8		14.50	17.6	5,626

*State of Wisconsin, State Department of Public Instruction, Computer tape summary of Annual Report of School Districts, 1973, 1974.

**Coefficient of variation.

TABLE W-6

WISCONSIN UNIFIED SCHOOL DISTRICTS: SCHOOL OPERATION TAX LEVY FY 1973 AND FY 1974 BY DECILE OF EQUALIZED VALUATION 1973 PER MEMBER FY 1974*

Decile (N = 388)	FY 1973**			FY 1974**		
	Average Equalized Valuation 1973 per Member FY 1974	Amount	Vari- ation Index***	Amount	Vari- ation Index***	Average Membership for All Purposes FY 1974
Total	\$44,601	\$15.31	15.3%	\$11.46	19.5%	2,410
1	25,675	14.41	25.4	10.81	29.3	923
2	30,600	15.50	13.8	10.91	22.5	1,322
3	33,921	14.74	12.7	10.61	17.4	1,488
4	36,984	15.28	11.9	11.23	15.8	1,498
5	40,095	15.39	14.0	11.56	16.7	2,420
6	43,395	15.73	11.5	11.28	16.8	2,435
7	46,556	16.03	14.2	11.72	16.3	5,656
8	50,657	15.29	9.9	11.75	14.7	3,116
9	56,553	16.50	11.5	12.48	15.0	3,025
10	63,117	14.21	19.7	12.31	23.1	2,210

*State of Wisconsin, Department of Public Instruction, computer tape summary of Annual Report of School Districts, 1973, 1974.

**Calendar 1972 equalized valuation used to compute FY 1973 tax rate; calendar 1973 equalized valuation used to compute FY 1974 tax rate.

***Coefficient of variation.

TABLE W-7

WISCONSIN UNIFIED SCHOOL DISTRICTS: EQUALIZED VALUATION 1973 PER MEMBER FY 1974 BY
DECILE OF EQUALIZED VALUATION 1972 PER MEMBER FY 1973*

Average Equalized Valuation					
Decile (N = 389)	1973 per Member FY 1973		1973 per Member FY 1974		Average Membership for Aid Purpose FY 1974
	Amount	Vari- ation Index**	Amount	Vari- ation Index**	
Total	\$34,590	41.4%	\$44,601	41.2%	2,410
1	18,553	16.2	26,858	27.1	913
2	22,975	2.5	31,025	7.8	1,053
3	25,460	3.8	33,866	5.8	1,314
4	28,181	2.8	38,790	8.1	1,543
5	30,848	3.0	40,092	5.8	1,791
6	34,049	2.5	43,956	8.4	3,296
7	36,780	2.0	46,199	11.0	2,187
8	40,102	3.1	49,953	8.9	5,642
9	44,792	3.8	55,690	8.0	3,731
10	64,987	33.7	82,609	38.4	2,633

*State of Wisconsin, Department of Public Instruction, computer tape summary of Annual Report of School Districts, 1973, 1974

**Coefficient of variation

APPENDIX 4



CENTER FOR THE STUDY OF EDUCATIONAL FINANCE

Department of Educational Administration
Illinois State University

Phone 309/438-3636

October 4, 1977

331 DeCarmo Hall
Normal, Illinois 61761

Ms. Nancy Kober,
Subcommittee on Elementary,
Secondary, and Vocational Education,
Committee on Education and Labor,
U.S. House of Representatives,
Washington, D.C.

Dear Ms. Kober:

Thank you for allowing us to examine H.B. 1138. Bearing in mind that you need a quick reaction rather than an extensive analysis, we have elected to reply to you in the format of a long letter with a number of references rather than a more formal report. If you wish to come back to us later for more commentary, please feel free to do so. We also wish you to understand that you may quote in part or in whole from this letter in support of H.B. 1138. We are transmitting a copy of this letter to Representative Paul Simon, Representative from the Twenty-fourth District of Illinois, who has worked with the Director and the Co-Director of this Center on a number of aspects of educational finance reform in Illinois.

We are strongly supportive of the central purpose of this bill as indeed we have been of other proposed pieces of federal legislation which would assist the states in the equalization of educational opportunity within their boundaries.(1) As you well know, the courts of many of the states are now in the process of



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debating just how far their state funding systems must go to meet the requirements of both the equal protection clauses, and the education clauses in the various state constitutions.(2) We agree wholeheartedly with Representative Carl D. Perkins that the federal government has at least some responsibility in helping the states live up to the standards of their own constitutions. Furthermore, we have argued elsewhere that, regardless of the outcome of the current wave of school finance litigation, there are even more basic sociological, political, and economic reasons why the state governments should attempt to equalize education opportunity within their own boundaries.(3) However, while we are thus strongly supportive of the intent of the proposed legislation, we do have an obligation to try to tighten up some of the language of the proposed law or to at least point out problems which might emerge in both the administration of the law and the adjudication of the law. The balance of this letter contains criticisms directed to that end, but it should be very clearly understood these are intended only to be constructive criticisms.

Most of our criticism is directed toward subsection (b) of Section #204. We find the phrase "quality of education" to be subject to many, many possible interpretations by professional



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educators. As such it would be extremely difficult to use a criterion such as this to judge a state plan submitted to the Commissioner, or, for that matter, for the courts to use a criterion of this nature in the adjudication of the act. This phrase, like many other higher-level generalizations in education, may unfortunately be neither measureable or justiciable. We would suggest that the phrase "quality of education" be removed and the phrase, "expenditure per pupil defined in subsection (b) part (2)" be inserted in its place. To be sure, this does not remove all problems of definition. The words, "cannot be the result of," are very difficult to work into an operational definition or a mathematical formulation that could be easily used by the Commissioner, or by anyone else. We would suggest that the phrase, "cannot be a function of" is much easier to handle from a measurement or mathematical point of view. The word "function" has a specific meaning in statistics and mathematics and can be used to evaluate equity situations in the several states. For a discussion of these measurement problems as they relate to the concept of "wealth neutrality" or "fiscal neutrality" please see the studies the Center has done of school finance systems in Illinois, Michigan, Kansas, and Ohio.(4) There will also be definitional problems connected with



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the word "wealth" itself which appears in subsection (b) part (1). Unfortunately, there is little consensus among school finance experts as to what constitutes the "wealth" of a school district. Despite this lack of consensus, however, we feel the Committee may well want this definition left to the discretion of the Commissioner rather than to attempt to spell out whether wealth is only property valuation or only income, or some combination of these two elements, etc. etc. It should be realized, however, that lack of professional agreement over the meaning of the word "wealth" will complicate the administration and adjudication of the proposed law.

Part (2) of subsection (b) also gives us some major problems. Imposing an absolute rule of 10 percent variation from the lowest to the highest expenditure per pupil will make it quite difficult for some states as opposed to others. The important fact here is that states just do not all start from the same position as regards the attainment of equity goals. Some states, those in which there is a long tradition of a high percentage of state aid and a small number of school districts, will be much closer to the 10 percent rule than are other states, those in which there has been a history of lower levels of state support and a large number of school districts.(5) It seems unfair to penalize



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a state for its history of a low percentage of state aid and for having too many school districts. Let us not be misunderstood here. The Center strongly favors a high percentage of the total K-12 costs being supported by the state governments rather than by the local governments, and we have certainly always favored reduction of the number of school districts through consolidation and reorganization efforts. Nevertheless some recognition must be given to the fact that it will just take longer for some states to make the 10 percent rule than others. We would suggest that attention be paid to relative measurements of equity rather than an absolute standard, such as the 10 percent rule. In our own work here at the Center we have stressed such measures as the "coefficient of variation," the Gini coefficient, the Lorenz curve, gross and net regression coefficients, and an index used by Professor Eugene McLoone, which measures the extent of variation below the median of a distribution of expenditure measurements.(6) Without getting into the technical details of the matter, the Commissioner would need to know how far a given state had moved toward equity from year to year, rather than whether that state did or did not meet some absolute equity criterion. We would thus stress directional movement toward equity goals rather than absolute equity



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goals. Again, just as the Commissioner would need these relative "gain" measurements to judge the effect of state plans, so would the courts need those measurements in adjudication of any disputes over progress toward equity goals. This requirement of a "gain," or a movement toward some absolute equity goal, will also be helpful if the funding level is not nearly as much as is contemplated in the draft of the bill that we have in hand. The point is that no matter how much money a state receives under this bill, those dollars must be used to reduce the variation in expenditure per pupil or to reduce the functional relationship between local wealth and expenditures, and progress toward these two goals can be measured. Granted, if the federal government can find only a small amount of funds to put into this venture, then it cannot expect the "gain" toward the equity goals to be very high. On the other hand the Commissioner should expect to find greater progress if more funds are available. We are also not sure just how interstate disparities are treated relative to intrastate disparities. A state can have little disparity within the state and yet be very low on spending relative to other states.

In our last telephone conversation you mentioned the problem that students are not counted the same way from state to state



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and even expenditures are not always defined the same way from state to state. That observation is correct, and it does make for serious comparability problems among the states. However, if the bill focuses not upon how close to wealth neutrality Illinois is relative to Michigan, but rather on whether Illinois has made more gains through time than Michigan has toward a goal of wealth or fiscal neutrality, then it may be possible to get around some of the comparability problems. Under separate cover we are sending you a copy of the study Dr. Thomas Yang did for the states of Illinois, Michigan, and Kansas.(7) In this Center study Dr. Yang did not attempt to compare Illinois, Michigan, and Kansas at one point in time on equity goals, but he did measure the progress of each state using the individual states' own definitions of "pupil," "expenditure," and "wealth." It is a little like measuring students with "criterion referenced" tests rather than measuring students with "norm referenced" tests. You are interested in a state's progress toward a goal, more than where that state stands relative to another state.

Fortunately, this bill comes at a time in which there is much work going on relative to the measurement of equity goals. The Center at ISU began work on this quite a number of years ago



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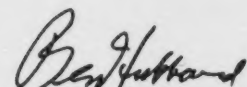
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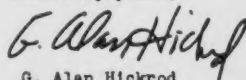
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with only the financial support of the good people of Illinois. Since that time, the National Institute of Education, the Ford Foundation, and the U.S. Office of Education have all put out requests for proposals and commissioned studies on the measurement of equity.(8) That must be an ongoing investment of research and development resources. If we are ever to get even a modest amount of agreement on what constitutes: "equity," "equalization," "wealth neutrality," "disparity," "equal expenditure for equal effort," etc., then it will take a lot of research and development by a lot of people. At some point, however, we may get the professional educators and the legislators to remember that if a phrase or a word in a law is not measureable, then it is going to be quite difficult to either administer the law or to litigate disputes concerning the law. That practice will make for less literary law, but that may be the price one pays for objective administration.


Ben C. Hubbard
Co-Director

Sincerely yours,


G. Alan Hickrod
Director



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References and Notes

1. Personnel at the Center were inclined to favor Representative Carl D. Perkins' earlier bill, The School Finance Act of 1973 and also certain aspects of Representative David R. Obey's The School Tax Equalization Act of 1973. Similar support was indicated for bills introduced by Senators Stevenson and Mondale; for example, Walter F. Mondale's The Elementary and Secondary Education Assistance Act of 1973. All of these proposals were intended to help states reduce expenditure per pupil disparities within their boundaries.
2. For a review of these cases see Levin, Betsy, State School Finance Reform: Court Mandate or Legislative Action?, 1977, National Conference of State Legislatures, Washington, D.C.; also Long, David C., Kohn, Richard S., and Sherman, Joel D., Summary of State-wide School Finance Cases since 1973, 1977, Lawyers Committee for Civil Rights Under Law, Washington, D.C.
3. See Hickrod, G. Alan and Hubbard, Ben C., "Social Stratification, Educational Opportunity, and the Role of State Departments of Education," Educational Administration Quarterly, Winter, 1968; for arguments grounded in classical political philosophy see Hickrod, G. Alan, Laymon, Ronald L., and Hubbard, Ben C., "Towards a Political Theory of School Finance Reform in the United States," Journal of Educational Administration, October, 1974.
4. The Center for the Study of Educational Finance was mandated by the Illinois School Problems Commission, a legislative commission of the Illinois General Assembly, to conduct an annual evaluation of the state grant-in-aid system following the reform of that system in 1973. The first year's evaluation is found in Hickrod, G. Alan, Hubbard, Ben C., and Yang, Thomas W. C., The 1973 Reform of the Illinois General Purpose Educational Grant-in-Aid: A Description and an Evaluation, 1975, Center for the Study of Educational Finance, Illinois State University, Normal, Illinois, 61761 (also available in Tron, Esther (ed.), Selected Papers in School Finance, 1974, U.S. Office of Education and as document ED 127 681 in the



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ERIC Document Reproduction Service, P.O. Drawer O., Bethesda, Maryland). The second year's evaluation may be found in Hickrod, G. Alan, Yang, Thomas W. C., Hubbard, Ben C., and Chaudhari, Ramesh, Measurable Objectives for School Finance Reform, 1975, Center for the Study of Educational Finance, Illinois State University (also available as ED 103 977 in the ERIC Document Reproduction Service). The third year's evaluation is in Hickrod, G. Alan, Hubbard, Ben C., Yang, Thomas W. C., Rasanond, Tharin, and Chaudhari, Ramesh, The 1973 Reform of the Illinois Grant-in-Aid System: An Evaluation After Three Years, 1976, the Center, Illinois State University. The evaluation techniques used in Illinois were also used on Kansas and Michigan data in Yang, Thomas W. C., Measurement of School Revenue Equity in the States of Illinois, Michigan, and Kansas, 1975, the Center, Illinois State University. Data from Ohio have also been analyzed using these techniques but publication has been held up due to complications arising from a case now at trial in Ohio, e.g., Board of Education of City School District of City of Cincinnati, et al. vs. Martin W. Essex et al.

5. An impressive study relating disparities in expenditure per pupil between school districts within a state to a whole host of variables can be found in Harrison, Russell S., Equality in Public School Finance, 1976, Lexington Books.
6. A large number of scholars in addition to professor McLoone have made contributions to the literature on the measurement of equity in school finance. See, for example, works by: Garms, Walter I., Michelson, Stephan, Grubb, W. Norton, Feldstein, Martin S., Wilensky, Gail R., Firestein, Robert E., Barkin, David, Gensemer, Bruce L., James, K. Thomas, Thomas, J. Alan, Kelly, James A., Johns, R. L., Alexander, Kern, Alexander, Arthur J., Jordan, K. Porbis, McLure, William F., Benson, Charles S., Barro, Steven, Fox, James N., Berne, Robert, Cohn, Elchanan, Odden, Allan, Callahan, John J., Wilkins, William, Moskowitz, Jay, Sinkin, Judy, Berke, Joel, etc. In fact, it is almost impossible to remain in the modern field of school finance and school finance reform for very long without struggling over problems of definition and measurement of "equity" concepts. In many instances conceptual and measurement tools have been taken from the field of economics and "adjusted" to fit circumstances in school finance.



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7. Yang, Thomas Wei-Chi, *op. cit.*
8. For an early statement of the Center's concern in this area see: Hickrod, G. Alan, Chaudhari, Ramesh, and Tchong, Tse-Mao, Definition, Measurement, and Application of the Concept of Equalization in School Finance, 1972, Department of Educational Administration, Illinois State University, Normal, Illinois. (Available as document ED 078 551 in the ERIC Document Reproduction Service, P.O. Drawer O, Bethesda, Maryland.) For more recent contributions see Berne, Robert, Equity and Public Education: Issues of Measurement in the Context of School Finance Reform, 1977, Ford Foundation, New York, New York; also, Freidman, Lee S., and Wiseman, Michael, Toward Understanding the Equity Consequences of School Finance Reform, 1977, Graduate School of Public Policy, Stanford University.

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SCHOOL OF EDUCATION

BERKELEY, CALIFORNIA 94720

October 10, 1977

Nancy Kober
 Committee on Education and Labor
 U.S. House of Representatives
 Rayburn House Office Building
 Washington, D. C. 20515

Dear Nancy:

Here are some comments on H.R. 1138. If I
 should do anything more, please let me know.

Sincerely yours,

Charles S. Benson
 Charles S. Benson
 Professor

CSB:db

encl.

October 10, 1977

Comments on H.R. 1138, Introduced in the House of Representatives
by Congressman Perkins, January 4, 1977

H.R. 1138 is a bill designed to strengthen the capacity of states to eradicate inter-district disparities in educational expenditures per student. Wisely, the bill concentrates on "irrational disparities," i.e., those that are related in the first instance to differences in locally-taxable wealth. Its compliance procedures allow states to receive equalization grants even though their school districts have different expenditure levels, provided any major differences in expenditures, one district to another, derive from characteristics of students (educationally handicapped, handicapped, and others in need of special programs, such as vocational education) or from conditions that produce high necessary costs (sparsity of population is cited as example in Sec. 204 (b) (4); presumably costs associated with density of population, such as need for extra health services, might also qualify as a justifiable expenditure disparity). Otherwise, access to the large Federal financial aid proposed for equalization grants is contingent upon a state's ability to compress the expenditure range of its school districts, on a per student basis, and taking account of money derived from local sources, state general purpose aid, and H.R. 1138 receipts, to ten per cent. This degree of equalization meets the Serrano conclusion that quality of education, as measured by non-categorical expenditures per student, cannot be determined by such "irrational"

factors as locally-taxable wealth. The ten per cent range of difference is presumably allowable under the de minimus principle.

However, a main conclusion of the Serrano doctrine asserts that differences in school district expenditures are fully allowable if they are related to differences in state wealth. I quote: " . . . the quality of education provided to a child within that state cannot be the result of the wealth of the school district in which he attends school but rather must result from the wealth of the state taken as a whole." (Sec. 204 (b)(1)). There is, moreover, no constitutional requirement that the Federal government concern itself with inter-state disparities in educational resources.

Yet, in the past, some leading members of Congress held it to be a duty of the Federal government to assure that minimum levels of educational provision nowhere fell too low. In 1946, Senator Robert Taft of Ohio states: "In general . . . I have felt very strongly that education is a state and local responsibility . . . However, the difficulty which has developed during the study we have given the problem is that in many states, although they are devoting as much or more than the average amount, on the basis of their wealth and the current income spent on education by the entire Nation, nevertheless they are unable to provide an adequate basic minimum education for their children, due to the great difference in income as between the states . . . So I feel that the Federal government does have a responsibility to see that

every child has at least a minimum education in order that each child may have the opportunity which lies at the very base of the whole system of our Republic." (Congressional Record, Vol. 92, Part 8, 1946, p. 10620).

In these brief comments, I cannot take up the question of whether minima are best considered for policy purposes in absolute or relative terms nor the question of how minima change from one period of time to the next. I do suggest that a child attending school in an above average district in a very low-income state may be as equally disadvantaged as a child who attends a poorly-financed school in a very rich state. And I do note a happy coincidence: though addressed to the problem of intra-state disparities, H.R. 1138 takes us some distance as well toward solving the problem of inter-state differences in expenditure - and for at least two reasons. (1) The dollar amounts of grant per student, whether delivered as basic grants or equalization grants (all states should be eligible for one or the other type of grant), would "count for more" in low-expenditure states, in that the Federal dollars would represent larger proportionate increments to existing expenditure levels in low expenditure states than they would in high expenditure states. (2) Many low expenditure states are ones in which the band of district expenditure differences is already rather narrow; thus, those low expenditure states could more easily and quickly pledge themselves to meet the requirement to hold expenditure differences

within the ten per cent variance limit and thus qualify at the first for the equalization grants. The equalization grants are larger than the basic grants and are intended to become progressively more so. Some high expenditure states would find the ten per cent band of allowable variation much harder to deal with. Hence, the initial flow of equalization money should favor the low expenditure states.

As a person who has studied problems of educational finance for some years, I wish to state that I am in favor of the equalization approach of H.R. 1138. Whereas I do not believe in absolute equality of educational expenditure, neither do I see any point in maintaining expenditure inequalities that are unrelated to the educational requirements of certain groups of children or to the real costs of meeting those requirements. H.R. 1138 attacks the irrational disparities while leaving the door open to establish expenditure differentials that might make sense in the educational careers of children.

Other persons may argue, of course, that H.R. 1138 would be a handicap to local control. I disagree, but before I try to present that case, let me say that it makes little difference to a student who is receiving an inadequate education whether the reason is inadequate local property tax base or a set of mind in the voters of the locality to oppose educational expenditure. Thus, H.R. 1138 goes after the right objective: expenditure equalization not tax base equalization. The latter represents

simply the opportunity for adults to obtain pecuniary benefits by depriving resident students of their rightful educational opportunities. In addition, it means the right of affluent communities to use their income power to vote tax overrides to cream off the best teachers in the state to teach their children. In short, tax base equalization doesn't take us very far from where we are now.

What about local control? As I see it, local school boards - and the parents and other adults who participate in board activities - have two main functions at present: to raise money and to figure out how to spend it wisely. (This is still the case, anyway, in most of our states.) Until recently, school boards could claim general success in the first of their functions, though the degree of success favored rich school districts. I for one am not convinced that school boards have done very well with the second function. H.R. 1138 will give them freedom to concentrate attention on expenditure policies, on establishing expenditure policies that assure real benefits to students from the real dollars being spent. This is the point where local control and local discretion is important, because local boards, if they know anything better than anybody else, have comparative advantage in knowledge of their resident students.

Should it be thought, moreover, that H.R. 1138 would serve eventually to reduce provisions of specialized services for students who do not qualify for categorical programs, i.e., the "normal

student" who is inquisitive and wants to study a given subject in depth, I note that nothing in H.R. 1138 stands in the way of further use of regional educational centers. Regardless of level or form of financing, in fact, many school districts are too small at the present time to serve students with specialized intellectual interests: there are too few who are interested in the same subject in the district to make up a "class" and the cost of obtaining teachers of advanced knowledge is too great, etc. Regional centers could offer courses in depth on an optional basis, using released time and afternoons. To promote diversity in offerings - for its own sake and to help ease us into a condition of basic expenditure equality in schools - I would urge a share, say 15 per cent, of equalization grants to the states be set aside for the development - or further development as the case may be - of regional education centers, with emphasis that the new money be spent on courses to allow students to explore their academic and applied intellectual interests in greater depth than they are able to do in a typical school district.

There are two additional changes I would like to see in H.R. 1138.

(1) School districts do not necessarily enter the market for resources on equal terms. Some may have to pay higher "prices", i.e., salaries, to employ teachers of a given level of competence than other districts have to pay. There may well be other price differences, but teachers' salaries are such a big part of the

school budget that this one instance is enough, to establish the basis of an argument. Where price differences for educational resources can be documented, one set of districts to another, they represent a cause for allowable expenditure differentials. Just as characteristics of students and cost differences (See 204 (b) (3)(4). I hasten to add I refer to real price differences, not to differences, say, in salaries actually being paid at any given time. The measurement of real price differences is difficult, but work is being done on the measurement problem.

(2) I would like to see basic expenditure differentials allowed in favor of certain of our central city systems. This would be in addition to recognizing their continued need for categorical assistance. The greatest single shame of American education in the second half of this century is the decline in standards of performance in central city schools. But this is not true in all central cities, or certainly not in the same degree. It might be appropriate that Federal educational authorities, in consultation with national educational groups, and using standard educational indicators, establish a broad taxonomy of central city school systems, e.g., "in great difficulty, in moderate difficulty, in no unusual difficulty at the moment," etc., and, at the least, to establish in H.R. 1138, basic expenditure differentials accordingly, favoring those

most who are in the worst shape. This would allow states, particularly the heavily industrialized, urban states, to participate in equalization grants without abandoning whatever efforts they may be making toward their central cities. I close with one additional comment: for the Federal government, possessing financial resources far beyond those of any democratic government the world has ever known, and leadership as well, to put its blind eye to what is happening in the schools of New York, Newark, Boston, and Detroit, to name a few instances, is callous disregard for the welfare of millions of children who are in no way to blame for the conditions in which they are being brought up.

Charles S. Benson

Charles S. Benson
Professor
University of California
Berkeley, California

APPENDIX 5

MAJORITY MEMBERS:
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CONGRESS OF THE UNITED STATES
 HOUSE OF REPRESENTATIVES
 COMMITTEE ON EDUCATION AND LABOR
 SUBCOMMITTEE ON ELEMENTARY, SECONDARY
 AND VOCATIONAL EDUCATION

B-340C RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, D.C. 20515

October 3, 1977

Dr. Mary Berry
 Assistant Secretary for Education
 U.S. Office of Education
 400 Maryland Avenue, S.W.
 Washington, D.C.

Dear Dr. Berry:

I am writing to request information from the Department in connection with the hearing held by the Subcommittee on September 29th on H.R. 1138 and equalization efforts, at which Dr. Joel Berke and Dr. Alan Ginsberg testified. Although both Dr. Berke and Dr. Ginsberg included in their testimonies a few options for Federal activity to further the goal of equalization, I believe it would be very useful to the Subcommittee if the Department could provide us with a memorandum listing a more extensive range of options in this area.

We would like this memorandum to encompass options ranging from those of low cost to the Federal Government which might stimulate State activity, through options of moderate expense intended to partially reduce existing inequities in school finance, to options of high cost, such as the program proposed in H.R. 1138, intended to promote wide-scale reform. I understand, of course, that since the Administration has not as yet adopted a position in this area, your listing and discussion of those options should not be interpreted as an endorsement of any or all of them.

We would suggest that in developing the memorandum some of the following criteria be considered:

Dr. Mary Berry
Page 2
October 3, 1977

-- whether the option would result in greater fiscal neutrality within a State

-- whether the option would aid in reducing the disparity in expenditures between local districts in a State

---whether the option would take into account the needs of children with greater educational costs and of districts with greater educational costs.

In order that this memorandum be made part of the hearing record, we would appreciate receiving a response by October 31st. Thank you for your cooperation, and I look forward with a great deal of interest to your response.

Sincerely,

Carl D. Perkins
Chairman

CDP:Jp



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE ASSISTANT SECRETARY FOR EDUCATION
WASHINGTON, D.C. 20202

Honorable Carl D. Perkins
Chairman, Committee on Education
and Labor
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In your letter of October 3, you asked me to assist the committee by providing a memorandum which would expand on the testimony presented on September 29 on H.R. 1138 by Dr. Joel S. Berke and Dr. Alan Ginsburg. In particular, you requested a memorandum which would present a more extensive range of federal options to further the goal of equalization than was included in the original testimony. I hope that the following discussion will be of use to the committee as it continues its deliberations on this important topic.

Background

As Drs. Berke and Ginsburg indicated when they appeared before your committee, and as you recognized in your letter, the Department of Health, Education, and Welfare and this Administration have not established a formal position with regard to the Federal role in the reform of State and local school finance. But the absence of an Administration position does not mean that we are not concerned with the issue. Reform movements addressing inequities in raising and distributing State/local financial support for elementary and secondary education have received widespread public attention and have accomplished substantial changes in public policy. At the Federal level, there have been two key action dates. One, the five to four Supreme Court decision in the 1973 Rodriguez case decided that school finance reform was not required by the Equal Protection Clause, although even the majority opinion forcefully called attention to the need for repairing the typical fiscal inequities illustrated by the Texas case. Two, beginning in 1974 with P.L. 93-380, Congress passed several provisions which either harmonize Federal aid formulas with reformed State laws, provide encouragement to States to revamp their traditional school finance legislation, or require the funding of research in school finance. In carrying out these Congressional purposes, the Department of Health, Education, and Welfare has been supporting studies by State governments and private researchers to understand the problems and develop solutions for finance inequities.

At the State level, between 1971 and 1977, traditional school finance systems have been struck down under State constitutional guarantees by courts in at least seven States and serious challenges are approaching decision in two others. Approximately twenty States have overhauled their State/local finance systems in the last five years to accomplish one or more of the following purposes: to equalize local property tax capacity, to reduce spending disparities among districts, and to recognize greater financial need of atypical pupils and districts. In a few States, the new laws have been accompanied by substantial narrowing of tax and spending disparities and by a greater focus on meeting the added costs of atypical pupils. But the record is uneven, and because many of the reform laws were underfunded, substantial inequities have continued to occur in more than forty States today.

The basic problem of State/local school funding that has received most public attention is the dramatic variation in expenditures among the districts within States, differences that in most States reach one and a half or two to one. Such spending differentials result in marked educational disparities, as measured by pupil-teacher ratios, training and experience of staff, availability of facilities, equipment, and counseling services.

Traditional State equalization formulas fail to recognize the special problems of the largest urban districts because their capacity to support education under the traditional measure of property value per pupil is frequently above the average for their States. Yet many large cities, particularly those in the Northeast, Midwest, and others scattered throughout the nation, have unusually heavy demands against their deteriorating tax bases for other municipal services, which make their problems of raising revenues substantial. Further, these cities have high proportions of pupils with costly educational needs that require added spending, and the high prevailing urban price levels compound their financial dilemma. Although several of the recent State school finance laws correct for these urban problems, either in the way they measure taxable capacity or by providing extra funds for Title-I type pupils, large cities in many states continue to have special problems.

Another unmet problem of State/local school funding for urban, suburban, and rural districts is that high cost pupils in large proportions require costly educational services that are not recognized by traditional school finance systems. Poor children, low achieving students, the non-English speaking, those in higher cost curricula, and the handicapped are among the pupils who impose high costs. Because these pupils are not randomly distributed, their costs pose particular problems for selected districts in every State. A number of reform States have introduced pupil weighting systems or new categorical programs to meet this problem, but such States are in a very small minority.

Implications for a Federal Role

What the above discussion (and the more extensive Berke-Ginsburg testimony) suggests is that while the shortcomings of traditional school finance systems create serious denials of educational opportunity, the solutions to those shortcomings are complex and, in the current state of knowledge, extremely difficult to devise. Thus in providing a series of options ranging from (1) research and developmental activities; (2) adjusting federal categorical programs; and (3) providing direct assistance for equalization within States, I see these categories as a necessary progression, as well as alternatives. If we can (1) develop answers and build analytic capacity over the next few years; and (2) if, in the meantime, we can adjust existing federal aids to overcome disparities, or to avoid contributing to finance inequities or interfering with state efforts at reform, we may (3) be able thereafter to propose carefully constructed federal programs specifically designed to encourage the equitable funding of elementary and secondary education in and among the states.

Before presenting these alternatives, I would like to share with you the conflicting views which must be resolved before a formal determination can be made for support of an enlarged federal role in this area. The arguments, in abbreviated form, which suggest an enlarged federal effort in the school finance arena are: (1) school finance inequities serve as barriers to equal educational opportunities for large numbers of school children; (2) traditional school finance patterns frequently work at cross purposes with Federal aid programs; (3) that the Federal government cannot continue to ignore the central core of educational support and expect that its add-on categorical aids can of themselves make a substantial difference in the quality of American public education, and (4) Federal research and incentives could bring about major changes, especially in cases where States have demonstrated that feasible approaches to reform are possible.

Countering these views are the arguments that (1) the limited federal role in education should continue to focus primarily on target groups comprised of economically disadvantaged and handicapped children; (2) that the basic support of education is a State/local concern, and federal involvement in school finance reform would open the door to federal general aid; (3) that the problems of educational finance are inter-twined with general State/local finance and cannot be dealt with in isolation; and (4) that systems of finance are so individualized to particular States, the state of the art so uncertain, and the amounts of aid necessary to bring changes so large, that no effective federal leverage is possible. With the understanding that that debate remains unresolved at present, let me turn to what some possible alternative federal actions to encourage useful change might be.

Developmental Activities

Progress is being made in research on the unresolved issues of school finance. But a systematic coordinated agenda of developmental activities is probably necessary to provide effective underpinnings of effective federal action within the next few years. Such a program of activities might consist of the following components.

- (1) Provide delegable authority to the Secretary of HEW to coordinate a program of research, data collection, training, and technical assistance among the components of the Education Division with a specific authorization. We estimate that the following activities could be undertaken for approximately \$10 million.

- a. A three year program of research on central issues of school finance, including such questions as:

What is the status and trend in school funding patterns in the States?

What have been the effect of equalization laws in lessening disparities among districts?

What are the tax and spending impacts of equalization laws for:

minority populations?

urban, suburban, and rural districts?

low, moderate, and high wealth districts?

For what purposes do districts which benefit from equalization spend their additional funds?

What are the appropriate measures of local capacity to state/local finance?

How can the differing educational needs of pupils be effectively reflected in finance laws?

How can special urban problems be recognized in formulas?

What are the feasible methods for measuring cost level differences among states, regions and districts?

What is the range of intra-district equalization problems?

How can Federal programs provide incentives for:

reducing spending disparities within and among states; within school districts; and recognizing differential pupil and district needs.

The organization of a comprehensive study program might be patterned on the recent compensatory education study, and conducted by the National Institute of Education over a period of two or three years at a cost of approximately \$5 million per year.

- b. While research is needed to provide better information on the issues mentioned above, states and scholars have already contributed a substantial body of experience and study. A program of knowledge transfer would be a useful stimulus to improved state finance planning.

Knowledge transfer could include the following three initiatives. First, the dissemination of models and materials useful to States in the school finance planning and implementation process. This effort might include computer simulation models, differential need determination models, and costs of education models. Second, the establishment of temporary (i.e., summer institutes) national or regional training centers for school finance planners. At these centers, operated by universities or other appropriate institutions, representatives from state and local education agencies could receive concentrated training in a broad range of school finance related subjects. Federal funds could be used to cover the costs of preparation of training materials, operations of the centers, and for travel and per diem of attending students. Third, gathering and disseminating timely and relevant information about the status of the financing of public education. This initiative could include information concerning the equity of existing State school finance systems, the structure of these programs, and notes on innovation, trends and development in the field of school finance. This research would cost approximately \$1 million annually. The first two options could be conducted either by the NIE or OE; the third by NCES.

Technical assistance in the form of discretionary grants, under a continued and revised Section 842 program, could be made available to states for the purpose of assisting them in the development of school finance reform plans, or for implementing or evaluating existing reform plans. This assistance could cost \$3 million annually to reach approximately fifteen states each year. States should probably be required to submit applications demonstrating the importance of the new planning or evaluating activities they would undertake, and these should be designed to build upon initial Sec. 842 studies. A variety of applicants should be eligible for funding, including legislatures and other public agencies.

Adjusting Federal Categorical Programs

Most Federal categorical programs operate, in effect, as add-ons to the core of State and local educational support. The four categorical alternatives discussed below are designed to assure that Federal programs either (a) encourage better equalized State/local finance systems, (b) offset the disparities in ineffective State equalization programs, and (c) avoid clashing with State programs of equalization. Some current provisions illustrate the way in which Federal categoricals can attain these goals. Title IV B of ESEA requires that States give substantial priority in fund allocation to districts (a) with high tax effort but low expenditures, (b) high proportions of pupils with special needs, and (c) particularly sparse districts. This provision assists districts of low wealth, and urban and rural districts. Section 123 of the Vocational Education Amendments of 1976 requires that States take account of the relative fiscal ability, prevailing cost levels in awarding grants to local agencies, and provides that no district making research test efforts will be denied funds simply because they cannot pay the non-Federal share. Finally, Section 5 (d)(2) of the Impact Aid law, as amended in 1974, permits States with effective equalization laws to count impact aid as local revenues, thus decreasing the amount of State aid they must provide to such districts.

A number of alternatives might be considered to enhance the effectiveness of such provisions. For example, the School Finance Provision of ESEA Title IV B, could be strengthened to take into account the differing fiscal capacities and needs of local districts by adjusting the amount of their Federal grant. At the present time, only a small proportion of the IV B monies are adjusted by capacity and need factors.

To provide a greater incentive effect, Impact Aid Provisions could be revised to take the degree of state equalization into effect through a sliding scale approach that would permit an adjustment according to the degree of equalization, and thus act as an incentive to State equalization programs. Some floor should be applied, but this would be a major change from the current regulation, which provides stringent all-or-nothing tests of equalization before a State can count on P.L. 874 payments as though they were local revenues. A more radical view, one several years away, might be to view the entire Impact Aid program as a source of support for equalization.

Some additional programs could be made subject to equalization provisions. P.L. 94-142 has been the subject of developing conflict between support of the regular educational program and the needs of handicapped children under the law. Without equalizing considerations, low wealth school districts are particularly hard hit.

Finally, categorical programs could eventually be adjusted to recognize regional cost differences in order to distribute equal resources rather than equal dollars, by adjusting aid distributions to reflect variations in price levels among and/or within States. At present, Title I ESEA has a rough cost adjustor among States by adjusting, within limits, entitlements by State current expenditures per pupil. Additional research would be necessary to implement this alternative, because at present cost adjustments would have to be made using proxies such as teacher salaries adjusted for training, or comparable salaries in other fields. (Only one State, Florida, has developed a market basket cost adjustor for school districts.)

Direct Financial Assistance for Equalization Within States

Most States will find it difficult to achieve equalization by reducing revenues in high spending districts; consequently, they will be compelled to level-up revenues in resource deficient districts. The simple, inescapable fact for State governments is that in the absence of Federal aid, equalization requires new school spending and becomes increasingly costly as disparities in per pupil revenues are reduced to narrower limits. The four alternatives discussed below are examples of general approaches designed to increase the amount of equalization States accomplish by using the mechanism of Federal financial assistance.

One possibility would be a federal add-on or bonus of up to 20 percent of each State's grants under Federal categorical education programs, available as an incentive for State equalization. There is substantial disagreement among school finance experts regarding the appropriate measures and cutoffs that should be used in determining whether adequate inter-district equalization has been achieved. One major problem is the treatment of cities. Although many city districts appear to have high relative revenue and property wealth per pupil, most would be losers from equalization unless States explicitly recognize the special circumstances of these areas (e.g., their higher per pupil costs, concentration of special need populations, and nonschool tax burden). Determining appropriate adjustments for cities is an exceedingly complex problem, and one that will be difficult to address using a uniform national standard.

The add-on or bonus received by a State would depend upon the proportion of equalization actually achieved. One of the two Federal/State equalization criteria contained in Section 5 (d)(2) of the Impact Aid provision would be applied to measure a State's equalization achievement. These two criteria are: (1) an expenditure standard that establishes limits on the amount of

variation in per pupil operating expenditures permissible across districts, and (2) a fiscal neutrality standard that sets a minimum on the proportion of total educational revenues in a State or district that are financed from the wealth of a States as a whole, rather than from the local tax base.

If the add-on or bonus approach is pursued, the Federal government would assume an active standard-setting role by creating and enforcing criteria for judging whether a State has in place a school finance system that adequately equalizes educational opportunities across its school districts. The approach is consistent with the present Federal strategy of categorical education support and an expansion of Federal financing into the State's general education program would not occur.

The annual costs of this alternative at current OE budget levels could be up to \$1.0 billion. Initial costs are dependent upon the number of States that meet the Federal equalization criteria.

A second approach might be a federal incentive of general education support to be used by States for improving equalization. Under this approach, States would be required to use Federal funds to reduce across-district disparities. A Federal formula would determine each State's entitlement, taking into account how much of a State's own money would be raised for reducing spending disparities across its districts. For example, a 1:3 Federal-to-State matching ratio would be established so that a State would receive one Federal dollar for every three State "equalization" dollars. This incentive system would encourage States that have not yet achieved high equalization levels to move in this direction. Once a State achieved a finance system meeting Federal equalization criteria, it would be exempt from requirements governing the use of Federal funds.

Direct Federal grants for promoting equalization are likely to result in more State progress than use of indirect categorical incentives. Under this kind of incentive system, States would be rewarded for gains toward equity rather than on whether they did or did not meet some absolute equity criterion, thus encouraging even the most disequalized States to participate in this program.

Negative aspects of this kind of incentive system are that it fails to address the special needs of central city districts. Further, the reward structure is specific to new equalizations, which necessarily means failure to compensate States which have already made significant progress toward equalization. One ameliorating factor to this latter problem is that fully equalized States can use Federal funds as general support.

This alternative could be authorized at \$1 billion, but the actual costs would be a function of State response.

Another approach would be a Federal equalization incentive to focus on districts of high poverty concentration, primarily urban and rural areas.

Under this approach, Federal general aid would be provided for school districts with large numbers or high proportions of low income children. Districts with low-income children in excess of either 5,000 or 20 percent of their total enrollment would be entitled to an additional payment for each child above these levels. The proportion of the entitlement paid would depend upon whether a State matches these Federal dollars with new State dollars, for example on a 2:1 basis.

The State matching basis could be subject to two provisions. First, matching requirements would be reduced for States with equalization plans in proportion to the degree of equalization actually achieved. Second, matching requirements would be reduced where State payments to eligible districts are above the per pupil average for the State. To increase the incentive for State equalization, Federal general aid would go to the State instead of to the district, provided that: one, the State has a finance system that meets Federal equalization criteria; and two, that expenditures per pupil in eligible districts are above the State average. This approach would leverage State money into urban and rural education, thus aiding cities and some poor rural districts to defray the costs of extra educational burdens generated by large concentrations of special need populations.

Negative aspects to this approach are that the matching provision could induce some States to opt out of the program. Further, the provision of targeted special aid to selected districts is a weaker incentive for State participation than is general aid to States. Finally, some urban areas with high poverty concentrations may not be sites with the greatest fiscal need within a State.

This alternative would cost \$500 million in FY 79. The long-range estimate is \$1 billion.

Another consideration that might be taken into account would be to modify the current Federal equalization standard by using a weighted per pupil measure. Under this approach the equalization standard discussed under the first three alternatives could be replaced or supplemented by one that requires greater expenditures for pupils with special education needs that meet Federally approved standards. In addition, each State could be required to develop adjustments to compensate more equitably the high cost education areas within the State.

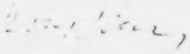
This approach would create a unified Federal school policy that relates the distribution of total school resources to pupil needs. It is consistent with long-range Federal policy goals of providing an adequate educational opportunity for all children.

This alternative would not involve additional costs beyond those estimated for the first three alternatives.

In sketching the options above, I have meant only to be suggestive and responsive to the interests of the Committee as expressed in your letter requesting this information. Each of the alternative approaches I have discussed needs refinement, elaboration, and evaluation before it could be seriously considered for adoption. Further, as I noted at the outset, basic issues concerning whether and with what priority programs of this kind are appropriate to the Federal role remain to be determined. Certainly, our historic commitment to the educational needs of the poor, the handicapped, and the victims of discrimination must remain our central concern.

The issues you have raised in your recent hearing on H.R. 1138 are challenging ones and go to the root of improving the quality of educational opportunity in the nation. I look forward to continued study and discussion of these matters and apologize for the delay in this response.

Sincerely,


Mary F. Berry
Assistant Secretary
for Education

Appendix B

Congress' Role In Fostering High
Aspirations for Equal Educational Opportunity
Among The States

Addendum to the statement of:

David C. Long, Director
School Finance Reform Project
Lawyers' Committee for Civil Rights
Under Law

Given to the:

Subcommittee on Elementary, Secondary
and Vocational Education of the
House of Representatives Committee on
Education and Labor on H.R. 1138
September 28, 1977

Addendum prepared by:

David C. Long and
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I. Introduction

Those who wrote the state constitutions enshrined education as the most important obligation of the states and guaranteed, in the words of many state constitutions, a "thorough", "efficient", "uniform", "general" or "adequate" free public educational system. These obligations, reflecting high aspirations of equal educational opportunity, could not, and most likely would not, have been assumed without Congressional support and prodding. Beginning with Ohio's admission to the Union in 1802, Congress granted lands for the support of common schools to every entering State that contained federal land. In total 145,000,000 acres, over four times the size of New York State, were granted to the states as the cornerstone of their public school systems. Given the limited financial resources of the fledgling states, these lands served as a sorely needed stimulus to public education.

In addition to providing financial inducements for the establishment of schools, Congress planted the seeds of state supported education systems through its territorial administration. With few exceptions, the states admitted to the Union after 1789 were first organized as territories. During this territorial stage Congress directly supervised the territories' government and appointed their executive officers. Congress mandated the provision of education in the territories and established a firm precedent for statewide systems of schools.

Furthermore, Congress, exercising its discretion over whether a state should be admitted to the Union, set as a prerequisite to admission that states provide education to its children. This

prerequisite, informal at first, was made explicit by the late 1800's when Congress, in the Enabling Acts for admission demanded that states establish and maintain free public schools.

Congress profoundly stimulated the formation of state supported schools and it may quite properly be said that Congress fathered the system of education in most of the present states. Through Congress' actions, the states were induced and inspired to establish and maintain free public schools.

II. Education in the Colonial Period

In order to appreciate fully the significance of the federal role in fostering education, it is important to understand the general condition of education in the late 18th and early 19th century.^{1/} Outside of New England, education was not considered a responsibility of the state and attendance was purely voluntary. For those few parents who could afford the tuition and the loss of their children's services, private schools or church schools were available. For the less wealthy, the only options were "charity schools", apprenticeship, or, most usually, illiteracy.

In New England, the government, acting as the agent of the church, provided minimal methods of support. The Massachusetts Bay Law of 1642 and the Old Deluder Act of 1647 established the principle of compulsory education in the United States and generally approved regular local taxation for schools. Connecticut and New Hampshire followed Massachusetts' lead and enacted similar legislation. It would be excessive, however, to claim that the

state or town fully assumed the responsibility for the financing of schools. As advanced as New England's role was in comparison to the other states, public funds were still used only to defray school costs not covered by student fees and private beneficence.^{2/}

When states did begin to fund public schools they were frequently only for the poor. Pennsylvania, by a law of 1802, provided that poor children could be sent to one of the existing private schools only if their parents would suffer the stigma of declaring themselves paupers. These early patterns of funding invidiously discriminated between classes and perpetuated the notion that free education at public expense was a form of charity and thus suitable only for the destitute.^{3/} It was, then, a momentous advance for public schools when states, as a prerequisite to the receipt of federal school lands and to statehood, assumed the responsibility of providing education for all of its citizens. From state controlled schools founded upon donations of public land, the transition was not difficult to free public schools supported by taxation.^{4/}

Even as the concept of public schools gained support, there still remained significant practical obstacles to the successful establishment of a free school system. Most important among these were: (1) the physical hardship of the frontier; (2) Indian wars; (3) general poverty of the people; (4) scarcity of negotiable money; (5) scattered population, which made school attendance small and irregular; (6) difficulty of procuring good teachers; (7) the lack of social unity.^{5/} Consideration of

these obstacles not only highlights the importance of the federal role in the creation of state systems of free public schools, but also helps one appreciate why the progress of free schools was slow even with federal aid.

Federal influence and support in the creation and expansion of state systems of free public education took three general forms: first, Congress required territories, even prior to statehood, to establish educational systems; second, Congress indicated, first informally and later explicitly, that a new state must take responsibility for providing an educational system evidenced by language in the state's first constitution; and third, Congress, through its policy of making large land grants for schools and other aid to states, revised their aspirations for free high quality and equitable systems of public education.

III. Establishment of School Systems in the Federal Territories

With few exceptions, states admitted to the Union after 1789 were organized first as territories. Each territory was organized pursuant to an "Organic Act" passed by Congress which became the foundation for the state's constitution and laws. An analysis of these acts concluded that their provisions pertaining to education laid the basis for state-wide systems of education:

A study of these acts reveals that in every instance Congress has required the maintenance of an educational system in the territories it has organized. In as much as these organic acts more or less set the pattern for the later state government when the territory achieves statehood, Congress may quite properly be said to have fathered the system of education in most of the present states of the Union. 6/

IV. Constitutional Guarantees of Education as Prerequisite to Statehood

Congressional permission to a territory to hold a constitutional convention and approval of its first constitution are requisites to the formation of a state and its admission to the Union. The terms on which Congress will admit the state are set out in an enabling act for admission.

Prior to the 1890's the only explicit educational requirement contained in the enabling acts was that pertaining to federal lands granted for school purposes (discussed in the next section); however, the citizens of territories, in drafting their constitutions, well understood that inclusion of provisions for education was necessary for congressional approval.^{1/}

Beginning in the 1890's and continuing through the early 1900's, Congress went much further than merely implying that an entering state should include provision for education in its state constitution. Congress demanded in the enabling acts for Montana, the two Dakotas, Washington, Utah, Oklahoma, New Mexico and Arizona "the establishment and maintenance of a system of public schools." Without guaranteeing a public school system, these territories would not have been granted statehood. And without this Congressional mandate, some of the territories might not have included educational provisions in their constitution.

The Report of the U.S. National Advisory Commission on Education concludes:

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It thus came to pass that certain constitutional provisions in the states concerning public education did not arise necessarily out of the initiation, or from the spontaneity of the people in those states, but were prescribed originally at Washington. ^{8/}

By requiring that states provide a free public school system as a prerequisite to admission to the Union, Congress gave needed support to the advocates of free public education in the states. Virtually every state constitution enacted after 1800 has contained a provision for a free school system. ^{*/}

V. The Northwest Ordinances and the National Policy of School Land Grants

Congress did more than require and formalize the commitment of new states to free public education. It also granted large amounts of land to entering states to be used exclusively for the support of public schools throughout each new state.

Congress' first grant for the support of education antedates the ratification of the Constitution by four years with the passage of the Ordinance of 1785. The Northwest Territory was ceded to the national government by the states and it was hoped that the proceeds from their sale would help pay the large Revolutionary War debt. To speed up their sale, an ordinance was passed in 1785 by the Congress of the Confederation establishing the means of surveying the first seven ranges of the territory.

^{*/} There are only two exceptions. (1) Louisiana, which did establish the machinery for a public school system during its first year of statehood, 1812, and (2) Illinois, whose constitutional convention adopted an ordinance, separate from its constitution, to deal with schools.

Each six-by-six mile square delineated a township of 36 sections, each section encompassing one square mile or 640 acres. The sixteenth section of each township, chosen because of proximity to the township's center, was "reserved for the maintenance of public schools."^{*/}

In 1787, the Congress of Confederation incorporated its educational philosophy into the Northwest Ordinance, which established the structure of government for the states to be formed from the territory. The third compact which was to be required between a forming state and the Union was the most important and declared that:

Religion, morality, and knowledge being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged.

By this irrevocable contract, Congress and the forming state formally acknowledged the responsibility of the government to provide education for all citizens. Daniel Webster recognized the significance of this legislation when he said:

I doubt whether any single law, or any lawyer, ancient or modern has produced effects of more distinct, marked, and lasting character than the Ordinance of 1787. It set forth and declared to be a high and binding duty of government to support schools and the means of education. 9/

^{*/} The idea of reserving public lands for the support of schools did not originate with the Ordinance of 1785. As early as 1659, the General Court of Massachusetts granted the towns of Charleston and Cambridge 1,000 acres of land each on condition that they be forever appropriated to maintain a grammar school. Connecticut in 1672, and again 1762-1733, Georgia in 1783, and New York in 1788 reserved state lands for schools.

Because the section set aside for schools was always the sixteenth, the federal school lands were often called "sixteenth section lands."

Webster's appraisal of the Northwest Ordinance's tremendous impact has been thoroughly confirmed over time. In 1922, with many more decades of hindsight available to form an opinion, Howard Taylor in his work The Educational Significance of the Early Federal Land Ordinances concluded that:

[The Third Compact of the Northwest Ordinance] was the cornerstone in the foundation of the free public school system which has supplanted the private and quasi-public academies... It established a precedent that has been an inspiration and a source of strength to the advocates of public education, even to the present time. No other thing has contributed as much to the development of the national policy of public education as has the provision in the Northwest Ordinance of 1787. 10/

With the admittance of Ohio, the policy of federal land grants for common schools became firmly established and was followed with the subsequent admission of every state containing federal lands.^{*/} One section, the sixteenth, was granted to all states admitted before 1848. In 1848 the passage of the territorial government act for Idaho set precedent for the granting of two sections, numbers 16 and 36, per township. The next 13 states to enter the Union received these two sections for public schools. In the enabling act for Utah passed in 1896 and again later in the enabling acts for New Mexico and Arizona, four sections were set aside for the benefit of schools. Congress increased the number of sections for these arid states to compensate for the lower value

^{*/} Only five states, in addition to the thirteen original colonies, did not receive school lands: West Virginia, Vermont and Maine were carved from older states; Kentucky was admitted prior to the land grant policy; and Texas contained no federal lands.

of the land.^{11/} Congress recognized that in order to equalize the value of the grants, where the local wealth was less, the federal aid had to be greater. The Congressional land grant policy continued through the 1900's. Oklahoma, Hawaii, and Alaska all received a substantial land endowment for the support of their schools.

VI. Other Early Federal Grants for Education

In addition to the land grants explicitly for public schools, other land grants and federal financial aid not restricted to education were made to the states; in many states these were used to supplement the support for fledgling public school systems provided by federally granted school lands.

The Enabling Act for the Admission of Ohio, in addition to authorizing the sixteenth section land grants, established the precedent for two other types of federal aid: grants of saline lands and the five percentum fund. The saline lands, or salt springs, were made as a general grant to the entering states and could be used for a variety of purposes. Evidencing the states' early commitment to education, however, out of the 834,000 acres granted in total to all of the states, 600,000 were applied to educational purposes.^{12/}

Beginning with Ohio, five percent of the net proceeds from the sale of public lands within the state were granted to that state for "internal improvement." This practice was continued in the case of all states admitted afterward. With the admission of Illinois in 1818, three-fifths of the five percent was permitted

to be used for education. Congress eventually permitted and then expressly directed that all of the five percent grants be directed to the states' permanent school fund. In total, over \$8,000,000 was added from this source to the growing endowment for the states' schools.^{13/}

Section eight of the Internal Improvement Act of 1841 was another major source of federal school land grants. By its terms 500,000 acres of public lands were granted to each new state admitted after 1800, except Maine, and to every new state containing public land admitted thereafter. Given at first for "internal improvements", these grants after 1845 were devoted to education by the states with the consent of Congress. Beginning in 1899, Congress discontinued the general grant and instead made grants for specific purposes, mostly educational. In total, for all the recipient states, approximately 5,200,000 acres of internal improvement land grants were dedicated for the use of common schools.^{14/}

In 1849, Congress initiated a new general land grant system which eventually also benefitted public schools. Louisiana had requested that it be granted all the swamp and overflowed lands within the state in recognition of money spent by the state in reclamation work. Congress honored its request and in the following year made the general grant available to all the new or public-land states. In total, 15 states received swamp-land grants and approximately 40,000,000 acres so granted were put into the school funds.^{15/}

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Another major source of federal aid for state schools in the 1800's was the "Act to Regulate the Deposits of Public Money" passed on June 23, 1836. The act provided that the balance of all moneys remaining in the U.S. Treasury above \$5,000,000 was to be "deposited" with the states, being distributed in shares based upon the number of seats each state had in both houses. The distribution, however, was clearly intended to be a "deposit" in name only. Congress wanted to make a direct financial grant to the states and employed this rubric to avoid testing the, as of then, unresolved constitutional question about the limits of federal aid. Following the true intention of Congress to make a grant to the states, the "loan" has never been recalled.^{*/}

In all \$28,171,453.86 was "deposited" with the states before the Panic of 1837 depleted the U.S. treasury and ended the program. Although no limitation was placed on how the deposits were to be used, school funds received about one-fourth of the distribution and today draw interest on approximately one-half of it.^{17/}

In sum, the federally donated land endowment for public schools totals more than 145,000,000 acres. Fletcher Harper Swift, one of the leading historians of federal aid to education, recognized that

^{*/} Speech of Henry Clay, Senate, January 28, 1841: "Was not [the deposit], in effect, distribution? Was it not voted for by Senators as practical distribution? The Senator from North Carolina has stated that he did. I did. Other Senators did; and no one, not the boldest, will have the temerity to rise here and propose to require or compel the states to refund that money.^{16/}

These permanent common school funds created out of Federal Grants were the first stable source of support given to free schools in more than half of the states. In almost every such state, the system of free schools was begotten and nurtured by the permanent public school fund. These funds of Federal origin were wheel, ballast, and lever of the states' system of free schools. They set this system in motion and kept them going.^{18/}

VII. The Congressional Land Grants Created High Aspirations for Free Public School Systems in the Recipient States

The language of early state constitutions demonstrate that the states' founding citizens revered education. The first legislatures had high aspirations for the quality and scope of their state's free education system - even though there were many impediments to the formation and expansion of state-wide school systems (discussed infra in section II). Given the limited financial resources of the states, these aspirations could only have been entertained because of the promise of federal aid.

A survey of the states' first constitutional provisions regarding the finance of education indicates that many states believed that the proceeds from federal school lands would largely fund their school systems, with little need to resort to local or state taxation. Eleven of the states which received sixteenth-section lands made no provision in their original constitutions for the support of schools other than from the revenue from the school lands.

Many Ohio settlers, for example, apparently believed that federal land grants would support the public schools without a

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further tax upon the citizens.^{19/} The Ohio Company, which purchased a large portion of the Northwest Territories believed that without this grant, schools could not be formed and without the schools, New Englanders would not settle.^{20/} Consequently, the Company lobbied, effectively, for these lands to be set aside for schools in the Ordinance of 1785.

In the State of Washington, J.C. Lawrence, the Superintendent of Public Instruction from 1886 to 1888, calculated that the new state could finance its entire school system with proceeds from the sale of its school lands, which if sold for at least \$2.50 an acre, would yield over \$5,000,000:

This amount placed at interest at a low rate, say 7 percent per annum, would yield \$350,000 or more than was expended last year for school purposes. The amount paid for teachers' wages last year was \$213,633 ... Add as much more from the \$350,000 and there would be funds enough to maintain an average of nine months each in each district, with a balance of \$136,367 to purchase globes, maps, charts, apparatus, school librarians, etc. ^{21/}

The framers of Idaho's Constitution saw that only with statehood and the accompanying receipt of school lands, would it be possible to "establish and maintain" a general, uniform, and thorough system of free public schools. They recognized that such a system had not been established in the territory because of the heavy dependency on local taxable wealth for school revenues. Although disagreement existed at the Idaho Constitution Convention of 1889 over whether the school lands should be sold or leased, the framers generally were of the opinion that federal lands would

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fund the schools and there would no longer be a need for local school taxes.*/ As was stated in the convention's report explaining the constitution and the pro's and con's of statehood:

"As the school tax constitutes a large part of the expense of government, and as the revenue derived from school lands will enable the legislature in a short time to reduce the school levies to almost nothing, it is easy to see that your taxes will be greatly reduced, in this respect, by a state government." (emphasis added) 22/

*/ Delegate McConnell, who favored permitting school lands to be sold, exemplifies this view:

"I think no fund is more sacred than the school fund,... if there is no provision for making this fund good in every way, it may be squandered, and the first thing we know our school fund will be so small that we can only maintain the schools by local taxation.

Delegate Parker believed that only permitting school lands to be leased would better accomplish their common intent to eliminate local school taxes:

"A stable republican form of government depends upon our educational interests. We recognize it here by incorporating that in our Section 1 of this article. Congress has recognized it by making this grant of land embracing two sections in every township and additional grants for university purposes. Now I hold that Congress gave us these lands not for ourselves, but for our children and our children's children and for generations of posterity yet unborn. *** Let us hold on to them, and as our territory develops these lands will increase in value and we shall be able to get money for school purposes without calling upon the people for direct taxation for money for educational purposes, Constitutional Proceedings at 647-48, 49-50.

The value of the land grants to the educational aspirations of the recipient state is also shown by contrasting them to the feelings in the older states, which did not receive school lands. Ellwood Cubberly in his highly respected text State School Administration, maintains that there was a noticeable disparity in educational aspirations and provisions between the states which received federal lands and those which did not. In advocating federal grants to reduce inter-state differences in education, Cubberly argues:

When one remembers that the funds greatly stimulated the States which received them; that many of the schools in [the non-recipient] states are very poor, largely for want of adequate support; and that in the older Northern and Eastern States [non-recipients], at least, there is no such general interest in education as exists in the newer states to the West; and then, when one contrasts these conditions with those which exist in the Western States with their important normal school... endowments and the certainty of annual incomes from permanent endowment funds... for all time to come, would it not be wise to make some form of grants for education which would tend better to equalize conditions as between the States? 23/

Cubberly recognizes that federal aid encouraged recipient states to aspire to high quality public educational systems, aspirations which older states had greater difficulty aspiring to because of their limited, unaided, resources. The annual report of the Virginia Superintendent of Public Instruction for 1873 exemplifies the jealousy and limitations felt by the older states:

Owing to [school land grants] Minnesota is now enjoying as large a school income from Federal Bounty as Virginia is painfully extracting from her people by a State tax. 24/

The most significant legacy of the federal land grant policy was that it heightened the aspirations of the states to achieve superior educational goals. As one historian contemporaneous with the period of rapid expansion of state public educational systems in the 19th century concludes:

The greatest benefit rendered by the [school land] funds has been in fostering among the people a desire for good schools. Without the land grants, the burden of maintaining free schools would have seemed oppressive to the new State [T]he funds have made practicable a system of education which without them it would have been impossible to establish. ²⁵/

Unfortunately, the federal grants for education, having raised the states' aspirations for public schools generally and uniformly available to all children, failed to produce the revenues sufficient to fund these aspirations. As a consequence, states found it necessary to rely increasingly on local taxation - especially the property tax - to fund the public schools. This established the pattern, that continues today, of educational inequalities among school districts resulting from unequal tax bases.

VIII. Conclusion

Congress granted an awesome total of 145,000,000 acres to the states for the support of the public schools. A better measure than acreage of the impact of early Congressional promotion of public education, however, can be found in the constitutional obligations which states, as a result of Congressional incentives, undertook to provide "thorough", "uniform", "general",

and "efficient" systems of free public schools, and the raised aspirations that federal grants created in those states for high quality public education equally available to all children. The federal government laid the foundation for state systems of public education during the period of territorial governance, enticed the states to establish and maintain schools by offering sizeable land grants, and required states to guarantee the maintenance of common schools in the state constitutions.

Although raising aspirations which set states on a course of expansion of their public school systems, the lands granted by Congress for educational purposes never provided revenues adequate to fund a substantial portion of school costs in most states. When land grant revenues failed to materialize, most states turned to the local property tax to meet school budgets. The consequence of this need to rely on local taxation is the great inequality in educational expenditures and opportunities among school districts in most states resulting from the disparate tax bases of local districts.

FOOTNOTES

1. The discussion here generally taken from J. Stephen Hazlett, "Financial Support of Schools", The Encyclopedia of Education, Vol. 4, Macmillan Co. and the Free Press (New York, 1971), pp. 30-32.
2. Ibid p. 32.
3. Ibid p. 32.
4. Howard C. Taylor, The Educational Significance of the Early Federal Land Ordinances, Teachers College, Columbia University (New York, 1922) p. 119.
5. Ibid p. 119.
6. William F. Russell, "Federal Financing of Education", School and Society, vol. 38, No. 973, August 19, 1933. The Science Press (Lancaster, Pa., 133), p. 78; a similar conclusion was reached by Charles Quattlebaun, Federal Educational Activities and Educational Issues Before Congress. Report prepared for the House Committee on Education and Labor. Washington, D.C.: Superintendent of Documents, Government Printing Office, 1951. Vol. 1, Parts 1 and 2.
7. Russell, op. cit. p. 79.

The effect of Congressional concern for education was particularly evident in Missouri. Missouri's first constitutional convention (1820) knew that the Congressional act authorizing its territory to frame a constitution had included general provisions for an educational system. Anxious for statehood, the convention voluntarily incorporated all such ideas into the constitution. Unfortunately, as noted by W. Carrington the leading historian of education in Missouri, "The State had accepted a responsibility. It knew not what." W. Carrington, The History of Education in Missouri, Stephens Publishing Company (Jefferson City, 1931), p. 34, quoted at Pearson, op. cit. at 679.
8. Report of the United States National Advisory Commission on Education, Federal Relations to Education, prepared by David S. Hill and William A. Fisher, (Washington), 1931, vol. II, p. 10.

New Mexico provides a good example. A history of education in New Mexico observed that:

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[T]he most damaging heritage of the earlier [territorial] period was the attitude of the people who felt that education was a luxury and perhaps a waste rather than an investment. As a school historian pointed out, "the prudential consideration, with emphases upon economy, greatly overshadowed the humanitarian values which cried out for an adequate educational program...."

Not trusting the New Mexicans to provide for adequate education, Congress imposed regulations which placed the process of developing the new state's constitution under its close supervision. (Emphasis added) Tom Wiley, "New Mexico", Pearson, Jim, ed., Education in the United States: Historical Development and Outlook, National Education Association (Washington, D.C., 1969), p. 843.

9. Cited in Sidney Tiedt, The Role of the Federal Government in Education, Oxford University Press (New York, 1966), p. 16
10. Taylor, op. cit. p. 53.

The U.S. Congress, in the Ohio Enabling of 1802, honored the commitments to education that had been made by the Congress of Confederation. The Ohio Enabling Act provided:

Sec. 7. And be it further enacted, That the following propositions be, and the same are hereby, offered to the convention of the eastern State of the said territory, when formed, for their free acceptance or rejection, which if accepted by the convention, shall be obligatory upon the United States:

First. That the section, numbered sixteen, in every township, and where such section has been sold or disposed of, other lands equivalent thereto and most contiguous to the same, shall be granted to the inhabitants of such township, for the use of schools.

The grant of sixteenth section lands was extended to all of Ohio (in addition to the portion covered by the Ordinance of 1785).

11. Owen Myers, The Effectiveness of Administrative Practices Relative to the Management of Sixteenth Section Lands in the State of Mississippi, Doctoral Dissertation, 1970, U. Mississippi, p. 24.

12. Ellwood P. Cubberly, State School Administration, Riverside Press, Houghton Mifflin Co. (Boston, 1927), p. 31. (Hereinafter Cubberly, op. cit. I.)
13. Ibid p. 32.
14. Ibid pp. 36, 37; Ellwood Cubberly, State and County School Administration, Macmillan Co. (New York, 1927), p. 18. (Hereinafter Cubberly, op. cit. II.) pp. 57-59
15. Cubberly, op. cit. I pp. 37, 38.
16. Quoted at Cubberly, op. cit. I p. 35.
17. Ibid p. 35.
18. Fletcher Harper Swift, Federal Aid to Public Schools, Department of the Interior, Bureau of Education Bulletin, 1922, No. 47; Government Printing Office (Washington, D.C. 1923), See also Swift, History of Public Permanent Common School Funds in the United States, 1795-1905, Henry Holt & Co. (New York, 1911).
19. Edward A. Miller, The History of Educational Legislation in Ohio from 1803 to 1850, Arno Press and The New York Times (New York, 1969), p. 9.
20. Taylor, op cit. p. 71, Knight, op. cit. p. 16.
21. "Report of the Superintendent of Public Instruction of Washington Territory" at 23 (1887), quoted in F.E. Bolton and T.W. Bibb, History of Education in Washington 110, (1934).
22. William McConnell, Early History of Idaho (1913), pp. 380-381.
23. Cubberly op. cit. p. 38.
24. W. H. Ruffner, "Public Lands of the United States for Education", Annual Report of the Superintendent of Public Instruction of Virginia, 1873.
25. George Knight, "History and Management of Land Grants for Education in the Northwest Territory (Ohio, Indiana, Illinois, Michigan, Wisconsin)", Papers of the American Historical Assoc. Vol. I, No. 3, 1885 p. 167.